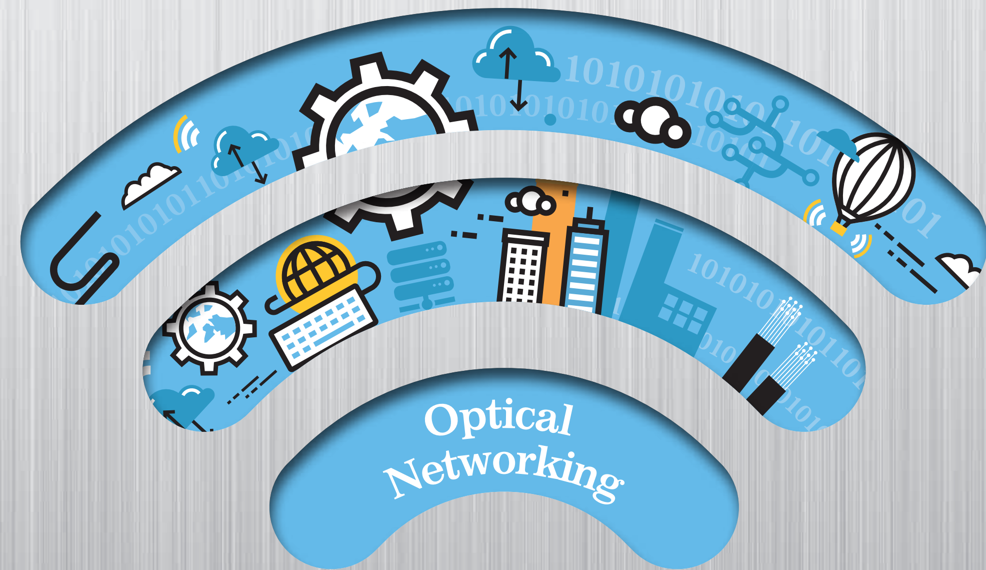


O-Net
Technologies (Group) Limited
昂納科技（集團）有限公司

(Incorporated in the Cayman Islands with limited liability) (Stock Code: 877)

Annual Report 2015

O-Net's Mission

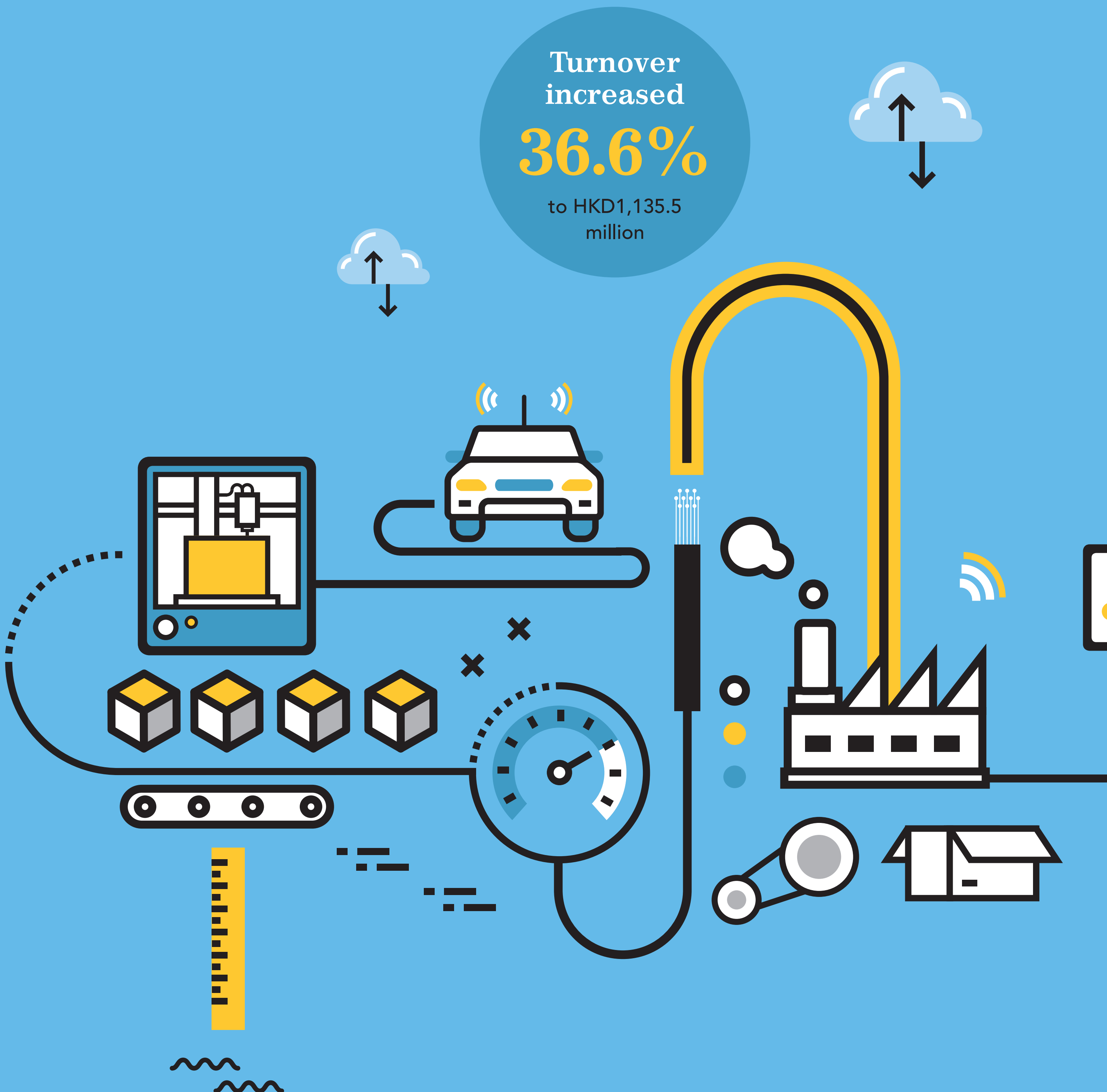
Return for our **shareholders**

Create value for our **customers**

Growth with our **suppliers and partners**

Career for our **employees**

Contribution to **the local community**

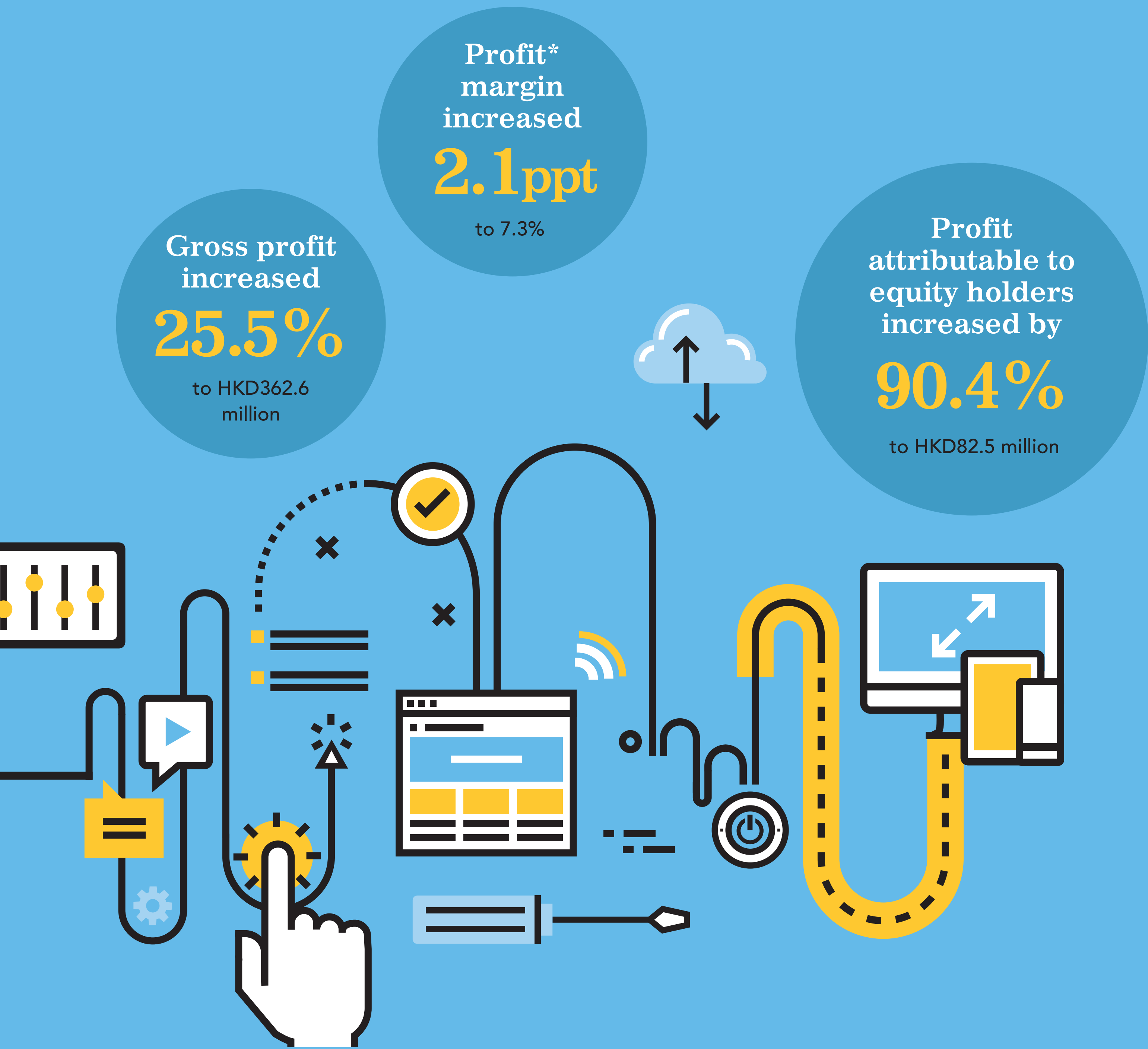


Corporate Profile

O-Net Technologies (Group) Limited is one of the leading high technology enterprises in China focused on optical networking, automation and sensing, and industrial applications businesses. The Group's core business focuses on design, manufacturing and sale of optical networking subcomponents, components, modules and subsystem for the high-speed telecommunications and data-communications systems.

The Group maintains global presences in mainland China, Canada, USA, Germany, France as well as other parts of the world and employs approximately 2,878 staff.

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 29 April 2010 with stock code 877.



Operational Performance

1. Acquired ITF Technologies Inc. on 30 January, 2015 – a Canadian company principally engaged in manufacturing and distributing fiber optic components and fiber sensors
2. Tapped into high growth data-communications market through launching active optical networking products
3. Tapped into the smart manufacturing market through launching machine vision system and fiber sensor

* *Profit means profit attributable to equity holders of the Company*

The objectives of the Group

As a leading optical networking company, devoted to:

a. increase market share with its diversified product portfolio;
b. expand R&D teams and increase investments to develop high growth active optical networking products for the next generation telecommunications and data-communications systems; and
c. invest in overseas companies with high proprietary technologies in chip level for the active optical networking products.

Contents

As a diversified high technology company, devoted to

- **a** focus on R&D and provide different solutions to meet diverse customer demands;
- **b** strengthen our R&D capabilities through global investments and ongoing expansion in our R&D teams; and
- **c** become leading high technology enterprise in the various selected market segments.

As a listed company, devoted to

- **a** create share price/value appreciation of the Company for long-term; and
- **b** increase returns for shareholders.

Corporate Information

Company Name

O-Net Technologies (Group) Limited

Financial Year End

31 December

Place of Incorporation

Cayman Islands

Registered Office

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

Headquarters and Principal Place of Business in the PRC

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

Principal Place of Business in Hong Kong

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

Company's Website

www.o-netcom.com

Board of Directors

Executive Director

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

Non-Executive Directors

Mr. Tam Man Chi *(Co-Chairman of the Board)*
Mr. Chen Zhujiang
Mr. Huang Bin

Independent Non-Executive Directors

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

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Corporate Governance Committee

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

Authorized Representatives

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

Company Secretary

Mr. Kung Sze Wai *(FAIA, FCPA)*

Investor Relations Contact

Mr. Kung Sze Wai *(FAIA, FCPA)*
Vice President of Finance
Tel: (852) 2307-4100
Fax: (852) 2307-4300
E-mail: ir@o-netcom.com

Legal Advisors to the Company

As to Hong Kong law:

Deacons

As to Chinese law:

Global Law Office

As to Cayman Islands law:

Conyers Dill & Pearman

As to U.S. law:

Shearman & Sherling

Auditor

PricewaterhouseCoopers

Property Valuer

Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Valuer

RHL Appraisal Limited

Principal Bankers

China

China Merchants Bank
China Construction Bank
China Bohai Bank

Hong Kong

The Hongkong & Shanghai Banking Corporation Limited

Stock Information

Place of Listing

The Stock Exchange of Hong Kong Limited

Stock Code

0877

Listing Date

29 April 2010

Issued Share Capital

732,246,240 shares (as at this report approval date)

Board Lot Size

1,000 shares

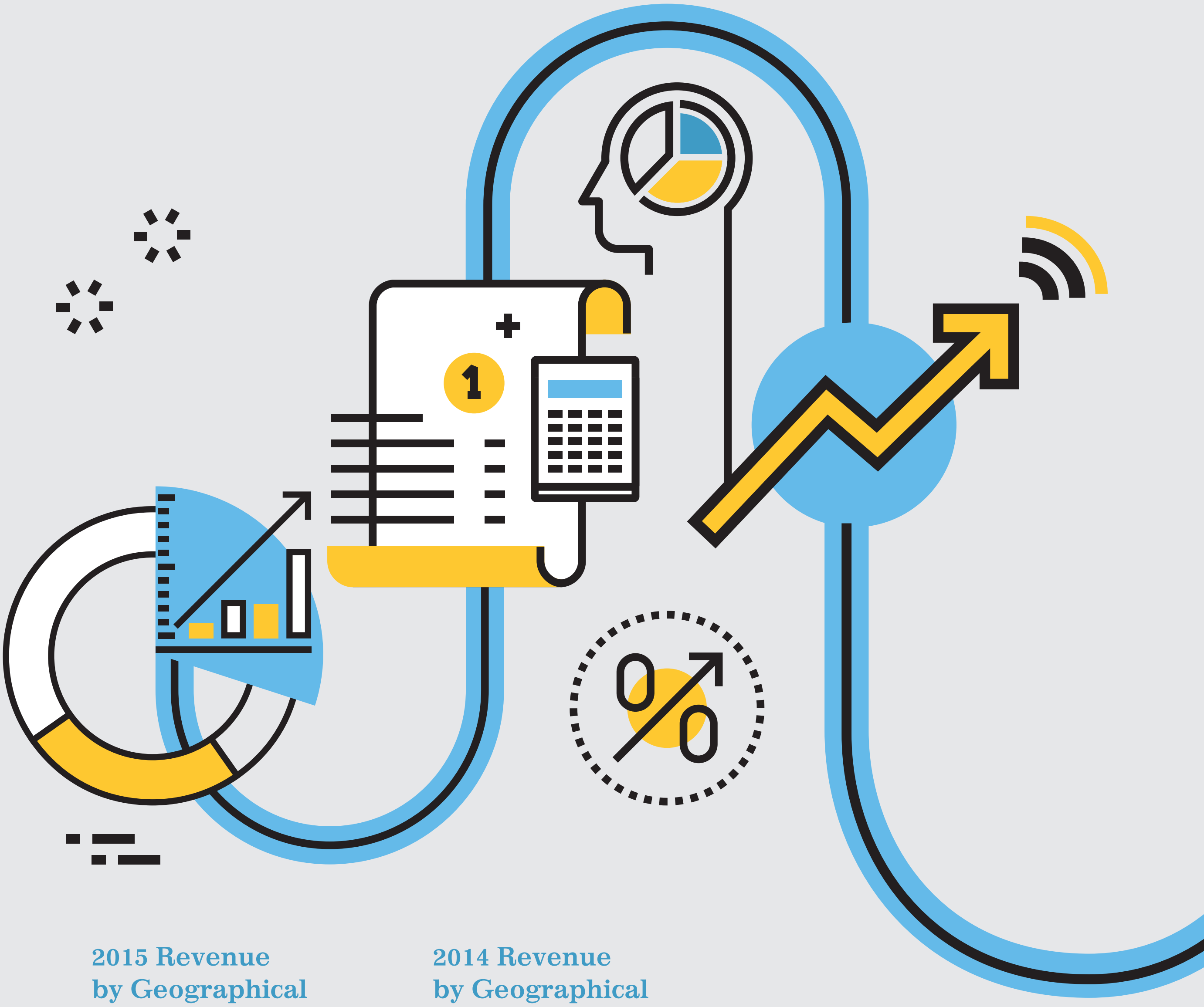
Cayman Islands Share Registrar

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

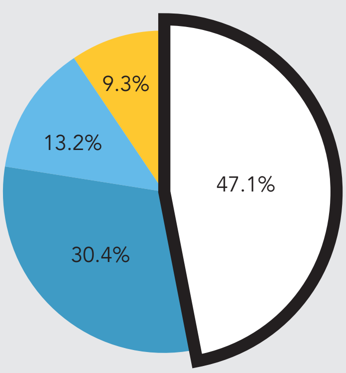
Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

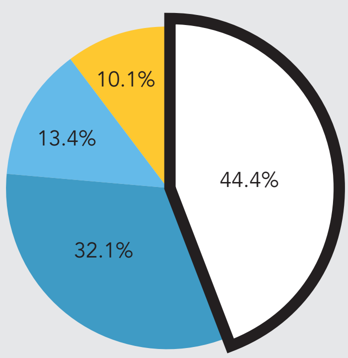
Financial Highlights



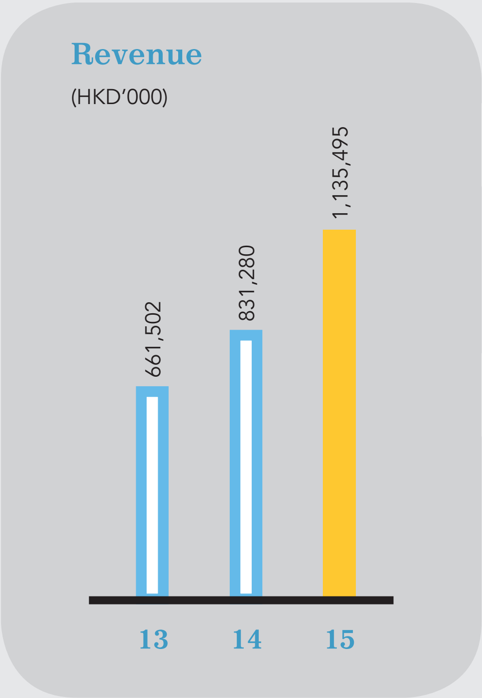
2015 Revenue by Geographical Segment

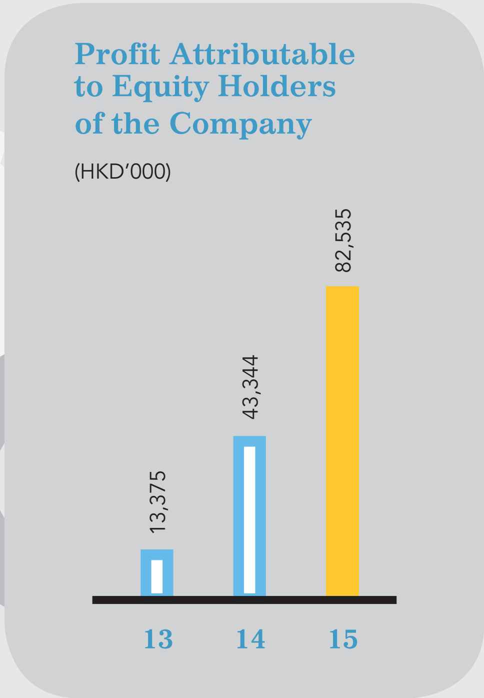


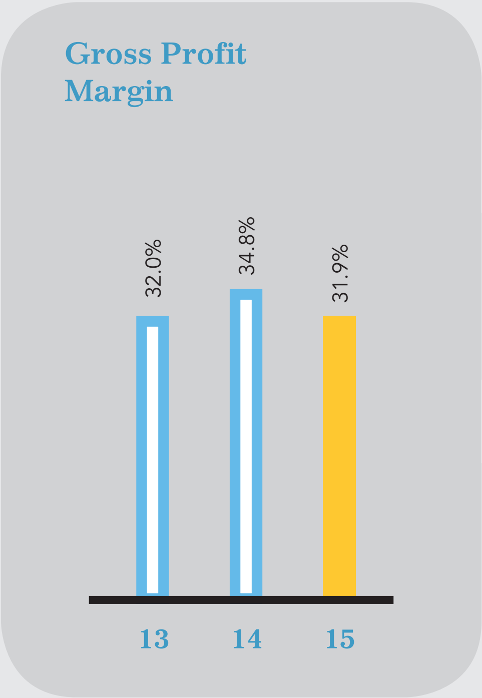
2014 Revenue by Geographical Segment

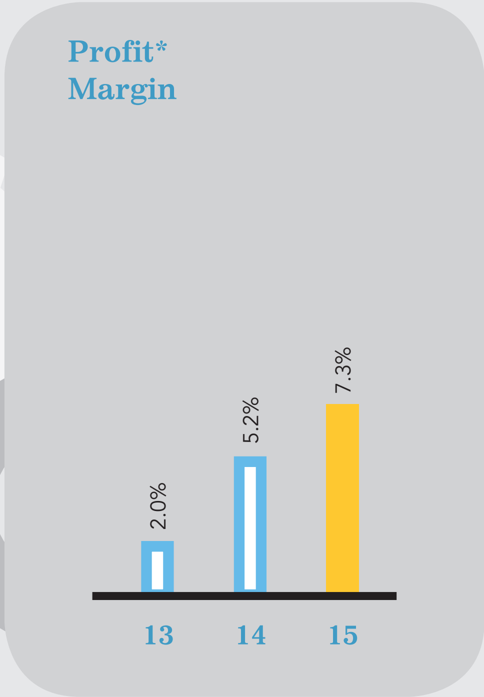


- PRC
- North and South America
- Asia (ex PRC)
- Europe









* Profit means profit attributable to equity holders of the Company

Chairman's Statement

"2015 has been a satisfying year for O-Net as it was able to set many new records, including overall revenue growth and revenue generated from new customers – internet content providers, as well as completion of a key acquisition."

Na Qinglin
Co-Chairman and
Chief Executive Officer

O-Net Expansion & Development

1. New Company Name
   – Enhance the Group's corporate image and position
   – Better reflect and align with the Group's diversified high-technology businesses
2. New Acquisition
   – Accretive to profitability in respect of the core business and opens a new revenue source in industrial laser and fiber sensor markets
   – Create powerful synergies in terms of products, technologies, access to new markets, and vertical integration
3. New Growth Engine
   – Launch products for high growth data-communications market
   – Launch machine vision systems and sensors for the smart manufacturing market
   – Engage by leading overseas internet content providers in developing LiDAR products for driverless car application

On behalf of the Board of Directors, I am pleased to present the Annual Report of O-Net Technologies (Group) Limited ("O-Net") and its subsidiaries (collectively, the "Group") for the year ended December 31, 2015 ("FY2015").

External Environment

While the global economic outlook became less optimistic as the year unfolded – owing to the continuous drop in commodities and oil prices resulting from lower than expected demand from China as well as other factors – the global telecommunications and data-communications markets have gradually recovered from the doldrums of 2014, and experienced accelerated growth during 2015. The strength in the global optical components market has been bolstered by increasing bandwidth demand to support cloud service adoption, consumer video, and mobile data applications. Much of the improvement in the market was also due to rising demand for high-speed interconnectivity between data centers from Internet content providers. As one of the major players in the optical networking industry within the global telecommunications market, we have managed to achieve solid growth.

Corporate Development

2015 has been a satisfying year for O-Net as it was able to set many new records, including overall revenue growth and revenue generated from new customers- internet content providers, as well as completion of a key acquisition. We also successfully launched active optical networking products and tapped into the data-communications market as well as developed and launched machine vision system and fiber sensor for the smart manufacturing market – our new growth engine. The achievements in the past year clearly reflect our successful strategies to expand our business through a diversified products portfolio and to enlarge the addressable market. Meanwhile, we have been engaged by leading overseas internet content providers seeking the most innovative technologies for providing WiFi from the air, as well as developing LiDAR products for driverless car applications.

During the year, we acquired ITF Technologies Inc. (formerly Avensys Inc.), a Canadian company that is principally engaged in manufacturing and distributing fiber optic components and fiber sensors to the global telecommunications, industrial laser and fiber sensor markets. The Acquisition is not only accretive to profitability in respect of the optical networking business and opens a new revenue source via the industrial laser business, but also creates powerful synergies with our core and new businesses in terms of products, technologies, access to new markets, and vertical integration. Moreover, the Acquisition will enhance our competitiveness in the optical networking industry.

In addition to internal team building, we are also investing in collaborative ventures within prospective new businesses, which hold immense potential for enhancing our long-term profitability. During the year, we introduced machine vision system and fiber sensor to the smart manufacturing market. We believe that growth in

"The achievements in the past year clearly reflect our successful strategies to expand our business"

82.5 million

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

90.4 percent

YEAR-ON-YEAR GROWTH

the automation and sensing business will lead to a new growth for the Group.

Results Highlights

Through the dedicated efforts and invaluable contributions from our management and staff, I am glad to report that the Group has achieved exceptional results in FY2015. Overall revenue amounted to HKD1,135.5 million, representing an increase of 36.6% from the previous year, while the consolidated profit attributable to equity holders of the Company totaled HKD82.5 million, which is 90.4% higher than in 2014.

Dividend

The Board has resolved to not recommend a final dividend for FY2015 at the upcoming Annual General Meeting of the Company.

Prospects

I am confident that the Group's results will further improve in the coming year and resume a strong growth momentum. Leveraging the solid technologies accumulated over the years, competence in research and development, innovative products recognized by the market and we will strive for continuous growth in the telecommunications market while at the same time gear up for any opportunity that may arise in the data-communications market. I trust that the aforementioned market changes and new innovative product launch will positively enhance the Group's performance, and anticipate rapid growth in the sale of optical networking products in the coming year, including significant growth in active optical networking products for the data-communications market.

With our business strategy of diversified development in the new businesses such as automation and sensing, and industrial applications we are confident that we can capture the growth trend together with our new product offerings in the smart manufacturing industry in the upcoming years. Meanwhile, with the initial success in the new businesses and acquisition, we will continue to explore and identify synergic investment opportunities in order to broaden our revenue sources, improve our response to future changes and developments in the market, and maximize returns for our shareholders and employees.

Appreciation

I would like to take this opportunity to thank our valued shareholders for their continued support and trust in O-Net. I wish to also express my gratitude to our customers and business partners for their loyalty to the Group over the years, which has enabled us to perform encouragingly, particularly in FY2015. On behalf of the Group, I would like to express my sincere appreciation to the entire O-Net workforce for their dedication and hard work.

Na Qinglin
Co-Chairman and
Chief Executive Officer

Hong Kong, 30 March 2016

Management Discussion and Analysis

Traditionally, the Group has primarily been a supplier of passive optical networking products to the global optical telecommunications market. In the past few years, however, the Group has successfully re-positioned itself from a supplier of telecommunications passive optical networking products to a high-technology leader that provides advanced products and solutions, including high-speed optical transceivers for data centers and innovative products for wireless access market. The Group's core technology platforms have also further expanded from the component level to the core chip level at upstream and sub-system level at downstream.

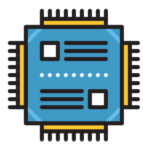
In addition, the Group has continued to execute its "Diversify for Growth" strategy and has invested considerable resources in emerging fast-growth market segments, including automation, machine vision, sensor and industrial laser. So far, the Group's electronic cigarette components and solutions in the automation and sensing business has received positive response from various industry members. Moreover, in order to seize opportunities in Industry 4.0 markets, a series of cutting-edge products such as machine vision systems and sensors were started to launch from 2015.

Optical Networking Business

The global optical components market grew by 6% in 2015. Overall revenue exceeded the previous year, reaching USD7.9 billion.

- Higher data rates in supporting rising bandwidth demand for mobile and access networks
- Strong demand from web-scale data centers
- Strong demand for 100G and 200G coherent transmission products
- Optical core networks to support the access and mobile networks

To further enhance its leading position in the global technology industry, the Group successfully acquired ITF Technologies Inc. (formerly known as Avensys Inc.) and its subsidiary ("ITF") on January 30, 2015 (the "Acquisition"). ITF is a Canadian company that is principally engaged in manufacturing and distributing fiber optic components to the global telecommunications, industrial laser, and fiber sensor markets. The Acquisition is not only accretive to profitability in respect of the optical networking business and opens a new revenue source via the industrial laser business, but also creates powerful synergies with the Group's core and new businesses in terms of products, technologies, vertical integration and access to new markets.



Core technology platforms expanded

– Upstream to the core chip level
– Downstream to the sub-system level

Industry and Business Review

Optical Networking Business

The global optical components market grew by 6% in 2015. Overall revenue exceeded the previous year, reaching USD7.9 billion. The growth of the global optical components market is being driven by (i) higher data rates in supporting rising bandwidth demand for mobile and access networks; (ii) strong demand from web-scale data centers in North America and Europe due to the introduction of cloud services storage; (iii) strong demand for 100G and 200G coherent transmission products from the telecommunications market in China and North America; and (iv) optical core networks to support the access and mobile networks, as well as the optical access and mobile networks build-out in China. The independent consultancy firm, Ovum is expected that more mergers, acquisitions, divestitures, and vertical integration initiatives that are expected to consolidate manufacturing capacity; and to grow strong suppliers with profitable businesses.

With the demand for optical networking products remaining strong, the Group was launched and qualified the first active optical products and the Acquisition during the year, overall revenue from optical networking products (including the revenue from ITF) achieved solid growth, rising by 24.7% when compared with 2014: reaching HKD974.7 million versus HKD781.4 million in 2014.

Automation and Sensing Business

- Seize opportunities under new national industry directive "Made in China 2025"
- Invests in automation and digitalisation since several years ago
- Launch first machine vision system and fiber sensor and generate income in 2015

Automation and Sensing Business

As the Chinese government has clearly acknowledged that previous industrial promotion measures, predominantly dependent on low labor costs, have encountered difficulties, it has recently encouraged local enterprises to develop technological advancements as well as ways to promote innovation in their businesses and spur competition.

The Group continued to provide various automation solutions for the electronic cigarettes manufacturing industry

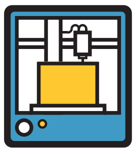
Since the Group had anticipated potential problems associated with significantly rising labor costs, it allocated resources for encouraging advancements in automation and digitalisation several years ago, and was able to successfully tap into the automation and sensing market. During the year, the Group continued to provide various automation solutions for the electronic cigarettes manufacturing industry, as well as offered machine vision system and fiber sensor to the smart manufacturing industry. Revenue generated from the automation and sensing business increased by 36.6% from HKD34.7 million in the financial year of 2014 ("FY2014") to HKD47.4 million in the financial year of 2015 ("FY2015").

Industrial Applications Business

Since the invention of the laser, the technology has found as one of the key applications in the industrial market. ITF's participation in this market can be divided into several categories based on the power and wavelength of the particular laser, including material processing, micro-material processing, marking and sensor applications. Though global manufacturing growth may be mixed in 2016, the industrial laser industry is expected to record a moderate 6% rise in revenue over 2015. This modest increase, however, will be led by booming fiber laser sales, which will achieve an estimated CAGR of 16%. Fiber laser sales will be continuously driven by its (i) power efficiency; (ii) cost competitiveness; (iii) ease of maintenance; and (iv) relative durability.

As fiber lasers offer flexibility operation at several wavelengths and allows access to multiple markets, ranging from materials processing and laser marking to sensor applications and laser spectroscopy, as well as medical applications, 3D printing and digital projections, the fiber lasers market is currently experiencing the fastest growth rate among all laser technology segments.

Management Discussion and Analysis



The Group has successfully tapped into the industrial lasers industry through the acquisition of ITF and has become a leading supplier of ultra-reliable fiber-optic components

In view of fiber laser's significance, the Group has successfully tapped into the industrial lasers industry through the Acquisition and has become a leading supplier of ultra-reliable fiber-optic components, such as fiber Bragg grating and high-power fused components, in the fiber lasers market. As a result, the Group had benefited from a new revenue source, which contributed HKD60.6 million principally from the sales of industrial laser products in FY2015.

Aside from the aforementioned supply of components to the fiber lasers market, the industrial applications business also includes the coating services business. In the second half of 2014, by leveraging the Group's optical coating and processing technology platform, an anti-reflective and anti-fingerprint coating machine was developed and started to provide coating services. Revenue generated from the coating services business reached HKD15.2 million in FY2014 and rose to HKD52.8 million in FY2015.

Financial Review

Revenue

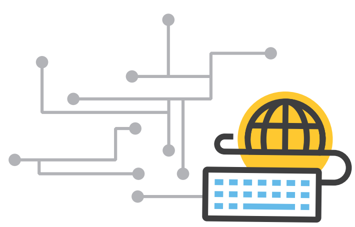
For FY2015, the Group reported revenue of HKD1,135.5 million, representing an increase of HKD304.2 million, or 36.6%, compared to that of HKD831.3 million for FY2014. The increase in revenue in FY2015 was primarily attributable to (i) the organic growth in the revenue of the optical networking business and the automation and sensing business; (ii) the new revenue sources of the optical networking business and industrial laser business contributed by the ITF; and (iii) the revenue source generated from the coating services business.

Optical Networking Business

Revenue of the optical networking business of HKD974.7 million was recorded in FY2015, representing an increase of 24.7% as compared to that of HKD781.4 million in FY2014. The increase in revenue in FY2015 was primarily attributable to (i) the demand for the optical networking products remaining at a high level; (ii) gained further market share in both overseas and domestic markets; and (iii) the new revenue sources contributed by the ITF.

The revenue of the optical networking business from the overseas market increased by 6.1% to HKD490.2 million for FY2015, representing 50.3% of its total optical networking revenue, which was attributable to the combined effect of (i) gained further market share in overseas markets; and (ii) the revenue of HKD16.5 million of the ITF had been consolidated into the Group.

The revenue of optical networking business from the domestic market increased by 51.7% to HKD484.5 million for FY2015, representing 49.7% of its total optical networking revenue, which was attributable to the combined effect of (i) gaining further market share in the domestic market; (ii) increasing in demand of optical networking products as the initiative of the Chinese government to accelerate high-speed broadband network construction – the optical access and mobile networks build-out in China; and (iii) the revenue of HKD48.1 million of the ITF had been consolidated into the Group.



Revenue

- Optical Networking Business
  HKD974.7 million
- Automation and Sensing Business
  HKD47.4 million
- Industrial Applications Business
  HKD113.4 million

Automation and Sensing Business

Revenue from the automation solutions business of HKD47.4 million was recorded for FY2015, representing an increase of 36.6% as compared to that of HKD34.7 million for FY2014. The increase in revenue for FY2015 was primarily attributable to the increase in demand of heating coils as the Group had established supply relationships with several major electronic cigarette makers in China and a new component – Cartomier which newly released to the electronic cigarette industry.

Industrial Applications Business

The Group's industrial applications business included (i) the industrial laser business; and (ii) the coating services business.

The Group had generated a new revenue source of HKD60.6 million from industrial laser business, which was solely contributed by the ITF. Sales of the industrial laser products were mainly contributed by demand of fiber lasers products for material processing applications primarily from industrial countries, especially China.

Revenue from the coating services business was mainly contributed by the orders from the OEM smartphone manufacturers and touch devices cover glass manufacturers in China. In FY2015, the Group had generated a new revenue source of HKD52.8 million from the coating services business as it had successfully designed and launched a coating machine with a new coating process to meet customer demands starting from the fourth quarter of 2014.

Gross Profit and Gross Profit Margin

Gross profit for FY2015 was HKD362.6 million, representing an increase of HKD73.7 million, or 25.5%, from the gross profit of HKD288.9 million for FY2014. The increase of gross profit was primarily due to the increase in revenue from the operation of the Group (excluding the revenue of the ITF) and the revenue contributed by the ITF.

Gross profit as a percentage of total revenue, or gross profit margin, slightly decreased to 31.9% for FY2015 as compared with 34.8% for FY2014.

Other Gains

Other gains for FY2015 increased by HKD28.4 million to HKD36.9 million, from HKD8.5 million for FY2014, which was primarily due to the net effect of (i) the gain on acquisition of ITF of HKD21.8 million; (ii) the gain on re-measurement of previously held interests in an associate upon acquisition as a subsidiary of HKD9.0 million; (iii) the decrease in government grants by HKD1.1 million, from HKD6.9 million for FY2014 to HKD5.8 million for FY2015; (iv) the increase in fair value loss/expiry of options of HKD0.9 million.

Management Discussion and Analysis

Selling and Marketing Costs

Selling and marketing costs of HKD49.5 million for FY2015, representing an increase of HKD13.1 million, or 36.0%, compared to HKD36.4 million for FY2014. The increase in selling and marketing costs for FY2015 was primarily attributable to (i) the increase of the salary costs, sales commissions and travelling expenses (excluding those respective expenses of the ITF); and (ii) overall selling and marketing expenses of HKD4.2 million incurred by the ITF. However, selling and marketing costs as a percentage of revenue maintained as 4.4% for FY2015 as compared to that for FY2014. The reason was mainly attributable to the increase in the overall selling and marketing costs in line with the increase in revenue.

Apart from salary of HKD2.1 million incurred by the ITF, salary for FY2015 was HKD13.6 million which represents an increase of HKD3.7 million, or 37.4% compared with HKD9.9 million for FY2014. 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 and sensing business; and (ii) an increment in salaries.

Apart from sale commission of HKD1.3 million incurred by the ITF, sales commissions for FY2015 were HKD16.0 million. This represents an increase of HKD3.5 million, or 28.0% from HKD12.5 million for FY2014. The increase was mainly attributable to the increase in sale performance.

Apart from travelling expenses of HKD0.4 million incurred by the ITF, travelling expenses was HKD6.7 million, which represents an increase of HKD2.0 million compared with FY2014. The increase in travelling expenses was primarily attributable to more frequent business travellings to overseas subsidiaries and associate conducted by the management team.

Research and Development Expenses

Research and development ("R&D") expenses for FY2015 were HKD135.1 million, which was 27.5% higher compared to HKD106.0 million for FY2014. The rise in R&D expenses was mainly due to (i) the increase in salary cost in the R&D projects partially offset by the decrease in the material consumed in the R&D projects (excluding those respective expenses of the ITF); (ii) the overall R&D expenses incurred by the ITF; and (iii) the 10-month overall R&D expenses incurred by the ArtIC after deemed acquisition as a subsidiary in March 2015. However, R&D expenses as a percentage of revenues decreased to 11.9% for FY2015 as compared to 12.7% for FY2014. The decrease in R&D expenses as a percentage of revenues were mainly due to the increase in revenue outweighing the increase in the overall R&D expenses.

Apart from salary of HKD11.4 million and HKD6.1 million incurred by the ITF and ArtIC respectively, the salary was HKD52.6 million, an increase of HKD8.2 million, or 18.5% as compared to HKD44.4 million for FY2014. The increase was primarily attributable to the combined effect of (i) the increase in hiring of R&D engineers for both optical networking business and automation and sensing business; and (ii) an increment in labor wages.

However, apart from the cost of raw material consumed of HKD1.7 million incurred by the ITF, raw material consumed in the R&D projects amounted to HKD34.8 million for FY2015, representing an increase of HKD3.4 million, or 10.8% from HKD31.4 million for FY2014. The increase of raw materials for R&D projects was primarily attributable to the addition of R&D projects for developing new products in optical networking business.

Administrative Expenses

Administrative expenses for FY2015 were HKD134.0 million, which was 25.0% higher, compared to HKD107.2 million for FY2014. The increase in administrative expenses for FY2015 was primarily attributable to (i) the increase in staff salary and staff welfare (excluding those respective expenses of the ITF); and (ii) overall administrative expenses incurred by the ITF. However, administrative expenses as a percentage of revenues decreased to 11.8% for FY2015 as compared to 12.9% for FY2014. The decrease was mainly due to the increase in revenue outweighing the increase in administrative expenses.

Apart from salary of HKD6.1 million incurred by the ITF, salary for FY2015 was HKD78.1 million, which represents an increase of HKD16.6 million, or 27.0% compared with the HKD61.5 million for FY2014. This increase was primarily attributable to the combined effect of (i) hiring additional staff for the automation and sensing business; and (ii) an increment in labor wages.

The share award/option cost for FY2015 was HKD12.1 million, an increase of HKD4.6 million compared with HKD7.5 million for FY2014. The increase was primarily attributable to the amortisation of share award cost for the newly issued share award in FY2015.

Finance Income

Finance income for FY2015 amounted to HKD9.4 million, an increase of HKD0.9 million from HKD8.5 million for FY2014. The increase in finance income was primarily due to the net effect of (i) the increase in foreign exchange gain by HKD4.6 million, which was driven by depreciation of Renminbi Yuan ("RMB") for FY2015 as the Group has more monetary assets in USD than monetary liabilities in USD rather than the functional currency of the Group; and (ii) the decrease in interest income by HKD3.7 million due to less bank deposits and decrease in average interest rate of these bank deposits in FY2015.

Finance Expense

Finance expense for FY2015 amounted to HKD5.7 million. The increase in finance expense was primarily due to the increase in interest expenses due to bank borrowings by HKD74.4 million during the year.

Share of Result of an Associate

Share of loss of an associate was HKD0.5 million for FY2015, which represents a decrease of HKD1.1 million compared with HKD1.6 million for FY2014. Only 2-months share of result were recorded for the Group's share of loss of an associate due to deemed acquisition as a subsidiary in March 2015.

Share of Result of a Joint Venture

Share of loss of a joint venture ("JV") was HKD2.1 million for FY2015, which represents a decrease of HKD1.3 million compared with HKD3.4 million for FY2014. The decrease of the Group's share of loss of a JV was primarily attributable to the decrease in operating expenses as a result of a lower level of R&D activities as compared to last year.

Profit Before Tax and Profit Before Tax Margin

Profit before tax of HKD82.1 million was recorded for FY2015 while HKD51.4 million was recorded for FY2014. The increase in profit before tax for FY2015 was primarily due to (i) an increase in revenue from the operation of the Group (excluding the revenue of the ITF); (ii) the revenue contributed by the ITF; (iii) the gain on acquisition of ITF; (iv) the gain on re-measurement of previously held interests in an associate upon acquisition as a subsidiary.

Management Discussion and Analysis

Profit before tax as a percentage of total revenues, namely profit before tax margin, increased from 6.2% for FY2014 to 7.2% for FY2015. The increase in profit before tax margin was primarily due to the decrease in respective R&D expenses and administrative expenses as percentages of the Group's revenue.

Income Tax Expenses

Currently, apart from income tax expense of ITF, income tax expenses of the Group consist of PRC Enterprise Income Tax ("PRC EIT") and deferred taxation as no provisions for Hong Kong profits tax and overseas income taxes have been provided as the Group had no estimated assessable profits arising outside the PRC.

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.

At the end of the reporting period, the Group had sufficient tax losses in Canada that are available in future years for offsetting against its future taxable profits arising in Canada. Deferred income tax assets had been recognized in respect of these losses as the directors consider it is probable that tax losses carried forward can be utilised.

Income tax expense for FY2015 amounted to HKD2.8 million represents a decrease of HKD5.2 million or 65.0% from the income tax expense of HKD8.0 million for FY2014. The decrease in income tax expenses was primarily due to the net effect of (i) receipt of tax credits due to overpayment of income tax expense during the year; (ii) the increase in R&D expenses eligible for additional deduction in FY2015.

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

Profit attributable to equity holders of HKD82.5 million was recorded for FY2015, while HKD43.3 million was recorded for FY2014. The increase in profit attributable to equity holders was primarily due to (i) increase in revenue from the operation of the Group (excluding the revenue of the ITF); (ii) the revenue contributed by the ITF; (iii) the gain on acquisition of ITF; (iv) the gain on re-measurement of previously held interests in an associate upon acquisition as a subsidiary.

Profit attributable to equity holders as a percentage of total revenue, namely profit margin, increased from 5.2% for FY2014 to 7.3% for FY2015. The increase in profit margin was primarily due to the decrease in the respective R&D expenses and administrative expenses as percentages of the Group's revenue.

Non-GAAP Financial Performance

Non-GAAP Profit Analysis

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

Reconciliation of Non-GAAP Financial Measures

	Year ended 31 December 2015 HKD'000	2014 HKD'000
Adjustment to Measure Non-GAAP Gross Profit		
Gross Profit	**362,557**	288,949
Adjustment Related to Cost of Sales		
Provision/(Reversal) for writedown of inventories	**895**	(7,124)
Non-GAAP Gross Profit	**363,452**	281,825
Adjustment to Measure Non-GAAP Profit*		
Profit*	**82,535**	43,344
Adjustment Related to Cost of Sales		
Provision/(Reversal) for writedown of inventories	**895**	(7,124)
Adjustments to Measure to Operating expenses		
Share Options and Share Awards Granted to Directors, Employees and Sales Distributors	**12,090**	7,543
Amortization of intangible assets	**5,077**	759
Adjustments to Other Gains – net		
Investment Income	**–**	(1,269)
Fair value Loss on Derivative Financial Instruments	**1,656**	742
Gain on acquisition of a subsidiary	**(21,762)**	–
Gain on re-measurement of previously held interests in an associate upon acquisition as a subsidiary	**(8,997)**	–
Non-GAAP Profit*	**71,494**	43,995
Non-GAAP Earnings Per Share		
– Basic	**0.10**	0.06
– Diluted	**0.10**	0.06
Gross Profit Margin	**31.9%**	34.8%
Non-GAAP Gross Profit Margin	**32.0%**	33.9%
Profit* Margin	**7.3%**	5.2%
Non-GAAP Profit* Margin	**6.3%**	5.3%

* Profit means Profit attributable to Equity Holders of the Company

Management Discussion and Analysis

Future Prospects

Looking ahead, data center products will represent the key growth drivers of the Group's core business in the near future. Correspondingly, it expects to launch a series of high-growth next generation innovative products for the data-communications market. At the same time, the Group's automation and sensing businesses will gradually grow into sizable business segments and further increase the Group's profitability. These key strategic initiatives will eventually facilitate the Group's overall business expansion in the coming years.

Optical Networking Business

The Group is confident that its optical networking business will continue to grow and lead the optical networking industry. The optical components market is projected to expand at a compound annual growth rate of 9% from 2014 to 2020, and will primarily be driven by (i) continued double-digit traffic volume growth requiring investment in network infrastructure and components; (ii) strong demand created by optical network transmission upgrading to 100GbE; and (iii) the increase in demand for data centers due to cloud services storage opportunities.

A positive development for the Group is the continuing demand for 100GbE, which has been driving the telecommunications market's growth, while data centers continue to be a bright spot. Hence, 40GbE and 100GbE transceiver products should also achieve favorable growth in the data-communications market. Moreover, with the Chinese government announcing in 2015 that it would improve China's internet infrastructure in order to lower broadband tariffs and improve access speeds and put forward an "Internet Plus" strategy, this should be a key factor leading to the growth of the optical networking business in the country. To this end, the Group will continues to launch 100GbE active products for both telecommunications and data-communications markets.

The Group is also a world-wide leading solutions provider for the most innovative WiFi technologies, such as balloon and drone-type WiFi-access solutions for providing WiFi access network. Looking ahead, income from the optical networking business will not only be generated from active and passive optical networking products for the telecommunications market, but also from a series of high-growth next-generation active products for the data-communications market.

The Group believes that its optical networking business will be back on track to high growth and enhance its position as a prominent player in the global optical networking industry.

Automation and Sensing Business

In the past, manufacturers around the world outsourced production to China to benefit from lower labor costs. However, as the minimum wage has soared by more than 50% during the past five years, the Chinese government is clearly acknowledging the need to raise the speed of economic transformation and to move away from simple, labor-intensive production to an innovation-led and high-technology growth model that links with Industry 4.0. To this end, a new national industry directive – "Made in China 2025" – has recently been introduced for accelerating the adoption of digital technologies and advancing production approaches across national manufacturing industries. This initiative by the Chinese government aims to ensure that it plays a leading role in the digital revolution; sustain and improve the country's global manufacturing competitiveness and economic growth; and put China on a par with other industrialized countries, such as the U.S.A. and Germany.

Although China's automaton industry is estimated to be worth approximately USD100 billion by 2020, the majority of Chinese enterprises have yet to fully embrace innovations related to past industrial stages. The Group therefore foresees investments in automation and digitalisation will skyrocket. Since 2013, the Group has been developing machine vision systems, and the first machine vision system and fiber sensor were launched in 2015 which has consequently tapped into automation and sensing market, and believes that it is in a good position to be among the earliest providers of Industry 4.0 solutions.

In addition, its efforts with ITF and 3SP Technologies S.A.S. (a French company managed by the Group under a management contract) have led to the introduction of LiDAR products to the Group's portfolio. The Group is confident that its machine vision systems and sensors will penetrate into the intelligent, digital and networked manufacturing market and seize opportunities in the Industry 4.0 market, which will eventually improve its overall profitability and expand its scale of business.

Industrial Applications Business

Going forward, the Group will continue to position itself as one of the leading high-technology enterprises in China. By leveraging its existing technology platforms, ITF will continue to develop and launch new solutions for material processing and sensor applications. Given that the demand for fiber laser products for material processing applications primarily comes from China, ITF will be able to expand its business by taking advantage of the Group's strong presence in the country. Moreover, ITF will be able to generate additional revenue by leveraging the Group's strong global sales and marketing teams. The Group is confident that its industrial applications business will serve as an additional revenue stream, contributing to the Group's overall revenue in the upcoming years.

In conclusion, by capitalizing on its existing technology platforms, the Group will continue to invest in new business opportunities that are innovative and create substantial value for its business. The Group has proven to be successful at entering into the data-communications, and automation and sensing markets as well as the Acquisition is consistent with this objective. These achievements as well as a series of high-growth products has prepared the Group to embark on another fast track for growth, which will improve returns and enhance shareholder value.

Group's Liability Financial Resources and Capital Structure

As at 31 December 2015, the Company's issued share capital was approximately HKD7.3 million divided into 731,931,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,334.8 million (31 December 2014: HKD1,321.5 million). The Group had current assets of HKD914.3 million and current liabilities of HKD422.3 million and the current ratio was 2.2 times as at 31 December 2015 (31 December 2014: 3.7 times). The Group's gearing ratio (calculated as total borrowings over total equity) was 5.6% at 31 December 2015 (31 December 2014: not applicable since the Group did not have any borrowing).

As at 31 December 2015, the Group had cash and cash equivalents of approximately HKD133.9 million (31 December 2014: HKD69.5 million). The significant increase was due to borrowing

Management Discussion and Analysis

raised and increase in trade and other payables. The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

Pledge on Group Assets

As at 31 December 2015, HKD0.6 million bank deposits were pledged as guarantee for payables to contractor and suppliers for the construction of the factory facility in Shenzhen. The Group has also pledged bank deposits of HKD5.0 million and bill receivables of HKD43.0 million as guarantee for bills payables due to raw material suppliers.

Capital Commitments and Contingent Liabilities

For 2015, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 31 December 2015, the Group had contractual capital commitments of approximately HKD14.5 million (31 December 2014: HKD47.4 million). As of 31 December 2015, 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 2015, 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 HKD161.6 million (31 December 2014: HKD135.6 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 31 December 2015, the Group had a total of 2,878 employees (31 December 2014: 2,198). The Group's staff costs (including Directors' fees) amounted to HKD314.9 million (31 December 2014: HKD229.2 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 2015, no option was granted (31 December 2014: options in aggregate of 1,870,000 were granted to 18 employees of the Group and one independent non-executive Director).

The Company adopted a restricted share award scheme ("Share 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 purpose of the Share Award Scheme, 10,119,000 restricted shares were purchased by the trustee from the market and 26,000,000 new shares were issued by the Company to the trustee. For 2015, 24,903,000 shares were granted to employees of the Group.

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

Change of Company Name

Pursuant to a special resolution passed at the extraordinary general meeting of the Company held on 4 December 2015, the shareholders of the Company have approved to change the name of the Company from "O-Net Communications (Group) Limited" to "O-Net Technologies (Group) Limited" and "昂納科技(集團)有限公司" has been adopted as its official Chinese name to replace "昂納光通信(集團)有限公司". With the approval of the Registrar of Companies in the Cayman Islands, the change of company name became effective on 4 December 2015.

Biographical Details of Directors and Senior Management

Executive Director

Mr. Na Qinglin

Mr. Na, aged 49, is the Co-Chairman of the Board, the Chief Executive Officer and an executive Director. Mr. Na joined the Company as the Chief Executive Officer in January 2002 and was subsequently appointed as the Co-Chairman of the Board of the Company. He was also appointed as an executive Director of the Company on 12 November 2009. He is the chairman of each of the nomination committee (the "Nomination Committee") and the corporate governance committee (the "CG Committee") and a member of the remuneration committee of the Company (the "Remuneration Committee"). Mr. Na is also a director of each of O-Net Communications (Shenzhen) Limited, O-Net Communications (HK) Limited and O-Net Communications Holdings Limited, all are subsidiaries of the Company. He is responsible for the Company's overall corporate strategy, management team development and daily operations.

Mr. Na is a director of each of Butterfly Technology (Shenzhen) Limited and Butterfly Technology (Hong Kong) Limited since 21 May 2008 and 30 May 2008 respectively. Prior to joining the Company, Mr. Na co-founded and became the co-managing partner of Mandarin Venture Partners Limited in 2000. Previous to that, Mr. Na worked at the Hong Kong office of Salomon Smith Barney between 1997 and 2000. He also worked at the New York office of Salomon Brothers from 1995 to 1997. During his tenure at Salomon Brothers Inc., Mr. Na specialized in corporate finance for the Asia Pacific region.

Mr. Na holds a master's degree in Business Administration from Vanderbilt University and a bachelor's degree in International Economics from Peking University.

Non-Executive Directors

Mr. Tam Man Chi

Mr. Tam, aged 68, is the Co-Chairman of the Board and a non-executive Director. He was appointed as a non-executive Director on 30 November 2009. He is a member of each of the Remuneration Committee and the Nomination Committee. Mr. Tam is also a director of each of O-Net Communications Holdings Limited, O-Net Communications (HK) Limited and O-Net Communications (Shenzhen) Limited, all are subsidiaries of the Company. As a non-executive Director, Mr. Tam is not involved in the day-to-day operations of the Group. He is engaged in providing business, financial and investment advice to the Company. Mr. Tam is also responsible for coordinating all matters and transactions that have or may have conflicting interests among Directors.

Mr. Tam is currently the chairman of Shenzhen Kaifa Technology Co., Limited ("Shenzhen Kaifa") (Stock Code: 000021), a company listed on the Shenzhen Stock Exchange. He started working for Shenzhen Kaifa as a director since July 1985 and he was re-designated as the chairman of the Shenzhen Kaifa in January 2008. From March 1998 to July 2014, Mr. Tam served as an executive director of Great Wall Technology Company Limited, a company which has been privatized and was delisted on the Stock Exchange of Hong Kong Limited (the "SEHK") in July 2014. From 1999 to September 2012, Mr. Tam served as a director of China Great Wall Computer Shenzhen Company Limited (Stock Code: 000066), a company listed on the Shenzhen Stock Exchange. From October 2009 to November 2012, Mr. Tam also served as a non-executive director of TPV Technology Limited (Stock Code: 903), a company listed on the SEHK.

Mr. Tam was awarded the "Shenzhen Honor Citizen" in 1994, the "National Friendship Award" in 2005, the "Title of Excellent Worker of Guangdong Province" and the "Leadership Award for Businessmen in Shenzhen" in 2006.

Mr. Chen Zhujiang

Mr. Chen, aged 48, was appointed as a non-executive Director on 30 November 2009. He is also a director of O-Net Communications

(Shenzhen) Limited, a wholly-owned subsidiary of the Company. As a non-executive Director of the Company, he is not involved in the day-today operations of the Group. He is engaged in providing industry-related information and advice to the Group. Mr. Chen is a qualified engineer and economic administrator.

Mr. Chen is currently the chairman of each of Kaifa O&M Components Co., Ltd. and Shenzhen Kaifa MicroElectronics Co., Ltd. He has held these positions since April 2005. He is also the chairman of Suzhou Kaifa Technology Co., Ltd. since July 2005. Mr. Chen is currently the vice-president of Shenzhen Kaifa (Stock Code: 000021), a company listed on the Shenzhen Stock Exchange. Mr. Chen is also the executive vice-president of the Shenzhen Computer Industry Association and the standing director of the Shenzhen Electronic Chamber of Commerce. With regards to Mr. Chen's past positions, he had previously served Shenzhen Huaming Computer Co., Ltd. as a director and general manager. He had also served China Great Wall Computer Shenzhen Company Limited (Stock Code: 000066), a company listed on the Shenzhen Stock Exchange, as its vice chief of office.

Mr. Chen holds a master's degree from the Business School of Jilin University and a bachelor's degree in Engineering from Tianjin University.

Mr. Huang Bin

Mr. Huang, aged 55, was appointed as a non-executive Director on 30 November 2009. He is also a director of O-Net Communications (Shenzhen) Limited, a wholly owned subsidiary of the Company. As a non-executive Director of the Company, he is not involved in the day-to-day operations of the Group. He is engaged in providing financial and investment advice to the Group.

Mr. Huang began his financial services career at Citibank in 1990 where he served as the assistant vice president and chief representative of the bank's Beijing Office. In that position, he was responsible for China's client coverage. Later on, in 1993, he joined Lehman Brothers as an associate and started the firm's Beijing Office. In 1995, he joined Salomon Brothers Asia Pacific as vice president, and was a director of Salomon Smith Barney engaged in corporate finance for the China market until he left the firm in 2000. He joined Mandarin Venture Partners Limited in 2000. Since 2000, he has been responsible for investment project origination at Mandarin Venture Partners Limited. Mr. Huang was an executive director of Theme International Holdings Limited (Stock Code: 990), a company listed on the SEHK, since December 2009 and re-designated as a non-executive director on 30 April 2010 and held office until 4 November 2015.

Mr. Huang holds a bachelor's degree in Economics from Harvard University.

Independent Non-Executive Directors

Mr. Deng Xinping

Mr. Deng, aged 49, was appointed as an independent non-executive Director on 9 April 2010. He is the chairman of the Remuneration Committee and a member of each of the audit committee (the "Audit Committee") and the Nomination Committee. Mr. Deng founded Guangzhou FEnet System Networks Co., Ltd (廣州市菲奈特系統網絡有限公司), a provider of software electronic products, computer systems and related technology, in July 1995. Mr. Deng served as the chief executive officer of Guangzhou FEnet Software Co., Ltd. (廣州菲奈特軟件有限公司) from 2001 to July 2007, Guangzhou FEnet Software Co., Ltd. and Guangzhou FEnet System Networks Co., Ltd. are wholly-owned subsidiaries of FEnet Co. Ltd.. Mr. Deng also served as a vice president of Longtop Financials Technologies, a company listed on the New York Stock Exchange, from 1 July 2007 to 30 June 2012.

Mr. Deng holds a Master of Science degree from South China University of Technology. He also graduated from Hubei University where he majored in Mathematics.

Biographical Details of Directors and Senior Management

Mr. Ong Chor Wei

Mr. Ong, aged 46, was appointed as an independent non-executive Director on 9 April 2010. Mr. Ong is also the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee.

Mr. Ong has over 25 years of experience in finance and accounting. Mr. Ong is currently an executive director of Net Pacific Financial Holdings Limited and a non-executive director of Joyas International Holdings Limited, both companies are listed on the Singapore Exchange Securities Trading Limited. Mr. Ong is an executive director of Zibao Metals Recycling Holdings Plc, a company trading on AIM, a market operated by the London Stock Exchange. Mr. Ong is an independent non-executive director of Man Wah Holdings Limited (Stock Code: 1999) and Denox Environmental & Technology Holdings Limited (Stock Code: 1452) respectively, both of which are listed on the SEHK. He is also an independent non-executive director of Nameson Holdings Limited (Stock Code: 1982), a company to be listed on the main board of the SEHK.

Mr. Ong is a non-executive director of Hong Wei (Asia) Holdings Company Limited (Stock Code: 8191), which is a company listed on the Growth Enterprise Market of the SEHK. Previously, he served as a non-executive director of Jets Technics International Holdings Limited, a company which is listed on the Singapore Exchange Securities Trading Limited.

Mr. Ong holds a Master of Business Administration degree that was jointly awarded to him by the University of Wales and the University of Manchester. Mr. Ong also holds a Bachelor of Laws degree from The London School of Economics and Political Science, University of London. Mr. Ong is an associate member of The Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Zhao Wei

Mr. Zhao, aged 51, was appointed as an independent non-executive Director on 10 August 2012. He is a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Mr. Zhao has over 23 years' solid experience in IT services field, especially in the area of computer software. He is currently an executive president of 金陵華軟投資基金 (China Soft Capital Investment Fund), since 2013. Mr. Zhao did not hold any directorship in other listed public companies in the past three years.

Mr. Zhao graduated from Peking University with a bachelor and master degree on computer science with a major of software engineering in 1988 and 1991 respectively.

Senior Management

Dr. Hua Yimin, Ben

Dr. Hua, aged 54, is the Vice-President of Research and Development for the optical networking business where he is responsible for overseeing new product development activities. He joined the Group on 10 October 2011.

Dr. Hua has over 22 years of solid experience in research and development and product marketing in the optical networking industry. His experience is also derived from his previous jobs at various technology corporations. Prior to joining the Group, Dr. Hua held senior positions at various companies in the U.S.A., where he led the development and marketing of various fiber optic components and optical networking sub-system products.

Dr. Hua holds a PhD in Physics from Shanghai Jiao Tong University. He had also conducted a one-year research at the University of California, Irvine, U.S.A. and a one year post-doctoral research at the Telecommunication Research Labs of the University of Alberta, Canada.

Dr. Yu Qinrong

Dr. Yu, aged 62, is the Vice President of Research and Development of the Group, where he is responsible for leading the O-Net USA team for design and development of next-generation components and modules for telecommunications and data-communications markets. He joined the Group in March 2016.

Dr. Yu has extensive experience in optic product design and development, particularly photonics packaging process development. Prior to joining the Group, he held various senior technical positions at Intel Corporation, JDSU, and other photonics companies.

Dr. Yu holds a bachelor's degree in optical physics, as well as a master's degree in optics from Changchun Institute of Optics & Fine Mechanics. He also obtained a Master's degree in Electrical Engineering from Washington University in St. Louis, and a PhD. degree in Physics (Fiber Optics) from the University of Ottawa.

Dr. Kan Jiaxi

Dr. Kan, aged 73, is the Chief Scientist of the Group. He joined the Group on 21 March 2016, where he is responsible for developing Group's next-generation high-speed transmission products for the high-growth data and telecom markets. Dr. Kan will be based in the Group's R&D center in Silicon Valley of the U.S..

Dr. Kan has extensive expertise and experience in optic networking products design and development. Prior to joining the Group, he held various senior technical roles at JDS Uniphase Corporation, Emcore Group, Intel Corporation, and other world-leading optical networking and technology companies. Dr. Kan holds several important patents in the US and Europe on optical electronic applications. He is also the co-author of two optical electronics books, and author of more than 10 technical articles about optical electronics in international technical journals.

Dr. Kan holds a bachelor's degree in Electronic Physics from Shanghai University of Science and Technology. He also earned a master's degree in Optical Fiber Telecommunication System from Shanghai Jiao Tong University, and a Ph.D degree in Optical Fiber Telecommunications from Technical University of Denmark.

Mr. Tan Boon Thong

Mr. Tan, aged 46, is the Vice President of Sales for optical networking business, where he is in charge of domestic and overseas sales of the Group. He has been leading the Group's international sales division since 1 February 2002, and the global sales and marketing division since 18 January 2004. Prior to joining the Group, Mr. Tan worked in a project engineering capacity at Shenzhen Kaifa. Prior to that, Mr. Tan worked as a technical staff at Thomson Electric (Malaysia) Sdn. Bhd. and Seagate Technologies (Malaysia) Sdn. Bhd.

Mr. Tan holds a bachelor's degree in Physics from the National University of Malaysia.

Dr. Gong Zhigang

Dr. Gong, aged 47, is the Vice President of Global Marketing for the optical networking business, where he is responsible for advancing the product marketing, product strategy development and product management operations of the optical networking business. He joined the Group on 14 October 2013.

Dr. Gong has extensive experience in product development, product management, product marketing and sales engineering management in respect of the optical networking industry. Prior to joining the Group, he held various senior positions with JDSU, and was entrusted with product line management and sales engineering management. In the seven years that Dr. Gong was with JDSU, he made significant contributions to the rapid growth of their transmission business. Preceding his tenure at JDSU, Dr. Gong served at a number of leading corporations in the United States, including Intel Corporation and Vitesse Semiconductor where he was tasked with product development and product marketing.

Dr. Gong holds a bachelor's degree in physics from Peking University and a master's degree in physics from the Chinese Academy of Science. He has also held a master's degree in electrical engineering majoring in

Biographical Details of Directors and Senior Management

computer network and a Ph.D. degree in physics, both from the University of Southern California, U.S.A.

Dr. Yu Aihua

Dr. Yu, aged 58, was appointed as the Vice President of Marketing for optical networking business on 3 March 2015, where he is responsible for overseeing the marketing of modules and subsystems. Dr. Yu Aihua also held a position of the Vice President of Research and Development – Modules and Subsystems for optical networking business of the Group since 16 April 2004.

Dr. Yu has over 33 years of solid experience in research and development in the optical networking industry. Prior to joining the Group, he was the chief research officer in the Department of Electronic Systems Engineering of Essex University. He has also gained international work experience having worked in various information technology companies including Lucent Technologies in the United Kingdom and Innovance Networks in Canada.

Dr. Yu holds a Master of Science degree, majoring in Electrical Engineering, from Nanjing Institute of Technology. Dr. Yu also obtained his doctorate degree in Electronic Systems Engineering from Essex University, United Kingdom.

Mr. Kung Sze Wai

Mr. Kung, aged 43, is the Vice President of Finance and Company Secretary of the Group. He is a member of the CG Committee. He is responsible for the financial, accounting and company secretarial functions as well as investor relations and corporate finance functions of the Group. He has over 18 years' experience in finance, accounting, auditing, taxation and company secretarial services as well as over 12 years' experience in investor relations and corporate finance which he gained from working in the companies listed on the SEHK. Prior to joining the Group, Mr. Kung held various positions including chief financial officer and company secretary in several companies listed on the SEHK, in addition to being executive director and authorized representative for a company that is listed on the SEHK.

Mr. Kung holds a master's degree in Corporate Finance from Hong Kong Polytechnic University and a bachelor's degree in Business from Monash University, Australia. He is a Fellow of the Association of International Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Shi Yingzhong

Mr. Shi, aged 48, is the Vice President of Operations of the Group. He joined the Group on 22 July 2013. He is in charge of supervising the department of production, engineering, supply chain management and fixed assets with the goal of achieving operational excellence for the Group.

Mr. Shi has over 18 years of experience in research and development, operation and project management in relation to the optical networking industry. He has held prominent positions at several renowned telecommunications companies, including Senior Operation Manager of E-Tek USA, Senior Director of JDSU USA and China, and Vice President of Production of Source Photonics China. Mr. Shi possesses in-depth knowledge and experience in optical components, modules, subsystems, EDFAs, TOSAs, ROSAs and transceivers, as well as modern manufacturing techniques.

Mr. Shi graduated from Shandong University and holds a Bachelor of Science degree in Electrical Engineering and a Master of Science degree in Communications and Electronics System.

Dr. Shen Fei

Dr. Shen, aged 36, is the Vice President of Automation Division of the Group. He joined the Group on 1 July 2012. Dr. Shen is responsible for overseeing new product development, manufacturing and business development of Automation Division and leading our team to develop automatic production equipments and advanced vision inspection systems.

Dr. Shen has over 13 years' extensive experience in research and development as well as product marketing in automation industry, with his expertise in vision inspection and intelligent machine learning. Prior to joining the Group, he held a senior position at the advanced engineering center of Singapore Technologies Engineering Ltd, where he headed up the business and product development of vision inspection and intelligent machine learning solutions.

Dr. Shen holds a PhD in Computer Vision and Machine Learning from Nanyang Technological University, Singapore and a bachelor degree in Computer Science from University of Science and Technology of China under Special Class for Gifted Young program.

Dr. Yi Zhiming

Dr. Yi, aged 50, is the Senior Sales Director of the Group. He joined the Group on 3 September 2012. He has been leading the sales and marketing of the Group's optical coating and coating processing products. Prior to joining the Group, Dr. Yi held senior positions of research and development, production and sales in various optical and electronic technology companies including leading the development, production and sales of optical coating products. He had over 18 years of experience in the optical and electronic industry.

Dr. Yi holds a master's degree in Engineering Optics from Beijing Institute of Technology and conducted the research of optical films and design and research of optical systems. Dr. Yi also holds a doctoral degree in Military Optics from Beijing Institute of Technology and conducted the design and research of new type optical component (binary optical component).

Mr. Fotis Konstantinidis

Mr. Konstantinidis, aged 57, was appointed as Chief Executive Officer of ITF Technologies Inc. (formerly known as "Avensys Inc.", together with its subsidiaries, "ITF") a wholly-owned subsidiary of the Company, on 12 January 2015. Mr. Konstantinidis joined the Company as Vice president of Marketing for industrial and optical networking products on 12 November 2014. Mr. Konstantinidis is responsible for overall management team and daily operations of ITF.

Mr. Konstantinidis has over 25 years of solid experience in engineering, marketing, and management with some of the industry's leading technology companies, including tenures at Norden Systems (Northrop Grumman), Intel, TranSwitch, Vitesse, Infineon and Crimson Microsystems. Mr. Konstantinidis also held several positions in sales and marketing department for 3SP between October 2007 and October 2014. Prior to joining 3SP, Mr. Konstantinidis held a position of senior director of marketing for JDSU from 2005 to 2007.

Mr. Konstantinidis obtained a master's degree in Electrical Engineering from University of Bridgeport in 1988.

Mr. Nigel Holehouse

Mr. Holehouse, aged 56, is the Vice President of Product Engineering of ITF, where he is in charge of its research and development department. He joined ITF on 1 September 2004.

Mr. Holehouse has over 25 years of solid experience in the telecommunications, sensing and fiber laser markets. Prior to joining ITF Labs, Mr. Holehouse held several positions of Co-Founder, Director of Operations and Vice-President of Packaging Engineering for Alfalight, Inc.

Mr. Holehouse obtained a higher national diploma of Applied Physics from Sheffield City Polytechnic in 1982.

Corporate Governance Report

O-Net Technologies (Group) Limited (the "Company") is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

Corporate Governance Practice

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 as its own code of corporate governance.

During the year ended 31 December 2015, the Company was in compliance with all 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. The Company has a CEO, Mr. Na Qinglin, and he currently also performs as the Co-Chairman of the Company. The Board believes that vesting the roles of both the Co-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 all the relevant code provisions set out in the CG Code during the year ended 31 December 2015.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to 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 throughout the year ended 31 December 2015.

Roles and Responsibilities of the Board

The Board is responsible for the leadership and control of the Company, and is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or re-appointment, approval of major capital transactions and other significant operational and financial matters. The management was delegated the authority and responsibility by the Board for the daily management of the Group. The Management has provided all members of the Board with monthly updates and/or any updates in a timely manner, giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge his duties. In addition, the Board has also delegated various responsibilities to the Board committees. Further details of these committees are set out in this report.

The non-executive Directors and independent non-executive Directors, who combine to offer diverse industry expertise, serve the important function of providing relevant advice so as to assist the management on formulation of business strategy and ensuring that the Board maintains high standards of financial and other mandatory reporting requirements as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole.

Composition

The Board currently consists of seven Directors including an executive Director, three non-executive Directors and three independent non-executive Directors:

Executive Director

Mr. Na Qinglin *(Co-Chairman of the Board and CEO)*

Non-Executive Directors

Mr. Tam Man Chi *(Co-Chairman of the Board)*
Mr. Chen Zhujiang
Mr. Huang Bin

Independent Non-Executive Directors

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

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board composition is formed to ensure strong independence exists across the Board and has complied with Rule 3.10A of the Listing Rule that the Board to have at least one-third of its members comprising independent non-executive Directors. The composition of the Board reflects the balanced skills and experience for effective leadership. The biographical information of the Directors are set out on pages 24 to 29 under the section headed "Biographical Details of Directors and Senior Management".

The Board decides on corporate strategies, approves overall business plans and evaluates the Group's financial performance and management. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of internal controls procedures, and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

Corporate Governance Report

Directors' Training

According to the code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The CG Committee is delegated the responsibility by the Board of reviewing and monitoring the training and continuous professional development of the Directors and senior management.

All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended 31 December 2015 to the Company. In addition to their own participation in professional training, relevant training was provided to the Directors by the Company in the financial year ended 31 December 2015.

The individual training record of each Director received for the year ended 31 December 2015 is summarized below:–

Name of Director	(i) Attending or participating in seminars/workshops; or (ii) working in technical committee relevant to the Group's business/ directors' duties; or (iii) reading materials in relation to regulatory update
Mr. Na Qinglin	√
Mr. Tam Man Chi	√
Mr. Chen Zhujiang	√
Mr. Huang Bin	√
Mr. Deng Xinping	√
Mr. Ong Chor Wei	√
Mr. Zhao Wei	√

Group Co-Chairman and Chief Executive Officer

The Group consists of two Co-Chairmen namely Mr. Na Qinglin ("Mr. Na") and Mr. Tam Man Chi. Mr. Na was also appointed as the CEO of the Company. The Board believes that vesting the roles of Co-Chairman and 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.

The roles of the Co-Chairman and CEO of the Group are as follows:

Co-Chairman	responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures.
CEO	responsible for managing the Group's business, including the implementation of major strategies and initiatives adopted by the Board and within those authorities delegated by the Board.

Non-Executive Directors

The three non-executive Directors and the three independent non-executive Directors are persons of high caliber, with academic and professional qualifications in the fields of electronic, finance and accounting. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers each of them is independent under Rule 3.13 of the Listing Rules.

The non-executive Directors and the independent non-executive Directors are currently appointed for a term of three years and are subject to retirement by rotation in accordance with the Articles of Association of the Company ("Articles").

Board Meetings

The Company planned in advance four scheduled Board meetings a year at approximately quarterly interval and additional meetings will be held as and when required. During the regular meetings of the Board, the Board reviewed the operation and financial performance and reviewed and approved the annual and interim results.

During the year ended 31 December 2015, the Board held 4 meetings. All Directors are given an opportunity to include any matters in the agenda for regular Board meetings, and are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

Name of Director	Number of attendance
Mr. Na Qinglin	4/4
Mr. Tam Man Chi	4/4
Mr. Chen Zhujiang	4/4
Mr. Huang Bin	4/4
Mr. Ong Chor Wei	4/4
Mr. Deng Xinping	4/4
Mr. Zhao Wei	4/4

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

Corporate Governance Report

General Meetings

During the year ended 31 December 2015, 2 general meetings of the Company were held, being the 2015 annual general meeting of the Company held on 28 May 2015 (the "2015 AGM") and an extraordinary general meeting of the Company held on 4 December 2015 (the "EGM").

Name of Director	Number of attendance
Mr. Na Qinglin	2/2
Mr. Tam Man Chi	1/2
Mr. Chen Zhujiang	1/2
Mr. Huang Bin	1/2
Mr. Ong Chor Wei	2/2
Mr. Deng Xinping	2/2
Mr. Zhao Wei	2/2

The Board is responsible for maintaining an on-going dialogue with shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourage their participation. A Co-Chairman and the chairmen of the Audit Committee, the Nomination Committee, the Remuneration Committee and the CG Committee attended the 2015 AGM and EGM to answer questions and collect views of shareholders.

Board Committees

The Board has established the following committees with defined terms of reference, which are on no less exacting terms than those set out in the CG Code:

- Audit Committee
- Remuneration Committee
- Nomination Committee
- Corporate Governance Committee ("CG Committee")

Each committee has authority to engage outside consultants or experts as it considers necessary to discharge the committee's responsibilities. Minutes of all committees meetings are circulated to all Board members. To further reinforce independence and effectiveness, the Audit Committee, Nomination Committee, and Remuneration Committee have been structured to include a majority of independent non-executive Directors. Details and reports of the committees are set out below.

Audit Committee

The Company established the Audit Committee with written terms of reference which was approved by the Board on 9 April 2010 and revised on 30 March 2012, 27 August 2013 and 31 December 2015. The terms of reference of the Audit Committee is currently made available on the websites of the SEHK and the Company.

The Audit Committee currently comprises three members as follows:

Mr. Ong Chor Wei *(Chairman)*
Mr. Deng Xinping
Mr. Zhao Wei

Terms of reference of the Audit Committee are aligned with the code provisions set out in the CG Code.

Terms of Reference

The Audit Committee was established to review the Group's financial controls, internal controls and risk management systems and make relevant recommendations to the Board. The Audit Committee has been chaired by an independent non-executive Director and all of the Audit Committee members are independent non-executive Directors. The chairman of the Audit Committee possess appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

The Audit Committee also discuss with management the risk management and internal control systems to ensure effective systems are in place.

The Audit Committee also responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditor; reviewing the external auditor's independence, the Group's financial and accounting policies and practices; reviewing the interim and annual reports and financial statements of the Group; and overseeing the Company's financial reporting system including the adequacy of resources, qualifications and experience of staff in charge of the Company's financial reporting function and their training arrangement and budget, and reviewing the risk management and internal control systems.

The Audit Committee meets the external auditor regularly to discuss any area of concern during the audit. The Audit Committee reviews the Company's annual report and interim report before submission to the Board and to focus particularly on:

(i) any changes in accounting policies and practices;
(ii) major judgmental areas;
(iii) significant adjustments resulting from audit;
(iv) the going concern assumptions and any qualifications;
(v) compliance with accounting standards; and
(vi) compliance with the Listing Rules and legal requirements in relation to financial reporting.

Corporate Governance Report

The Audit Committee also ensures proper arrangements are in place by which employees can report any concerns, including misconduct, impropriety or fraud in financial reporting matters and accounting practices, in confidence and without fear of recrimination for fair and independent investigation of such matters and for appropriate follow-up action. Employees can report these concerns to either senior management or the Audit Committee. Any shareholders or stakeholders can also report similar concerns by writing in confidence to the Company's business address in Shenzhen, China.

During the year ended 31 December 2015, the Audit Committee held 2 meetings:–

Name of Director	Number of attendance
Mr. Ong Chor Wei	2/2
Mr. Deng Xinping	2/2
Mr. Zhao Wei	2/2

During the year ended 31 December 2015, the Audit Committee reviewed, among others, the annual and interim results of the Group, which were in the opinion of the Audit Committee that the preparation of such results complied with the applicable accounting standards and the Listing Rules; and reviewed the system of internal control of the Group.

Remuneration Committee

The Company established the Remuneration Committee with written terms of reference which was approved by the Board on 9 April 2010 and revised on 30 March 2012 and further revised on 27 August 2013. The terms of reference of the Remuneration Committee is currently made available on the websites of the SEHK and the Company.

Terms of reference of the Remuneration Committee are aligned with the code provisions set out in the CG Code.

The Remuneration Committee is chaired by an independent non-executive Director of the Company. The Remuneration Committee is responsible for, among others, the determination, subject to the agreement with the Board, the framework or policy for the remuneration of the Chairman, CEO, the executive Directors and such other members of the executive management as it is designated to consider.

The Remuneration Committee shall also make recommendation to the Board on determining (i) the remuneration packages of each of the executive Director and other senior executives including bonuses, incentive payments and share options or other share awards within the terms of the agreed policy; and (ii) the remuneration of non-executive Directors, and in consultation with the Chairman and/or CEO as appropriate.

The Remuneration Committee currently comprises five members as follows:

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

During the year ended 31 December 2015, the Remuneration Committee held 1 meeting for reviewing the remuneration packages of the Directors and senior management.

Name of Director	Number of attendance
Mr. Deng Xinping	1/1
Mr. Tam Man Chi	1/1
Mr. Na Qinglin	1/1
Mr. Ong Chor Wei	1/1
Mr. Zhao Wei	1/1

Apart from the meeting held for the above, the Remuneration Committee also by way of written resolutions made recommendation to the Board on the revision of remuneration of executive Director and senior management.

The emolument payable to Directors and senior management will depend on their respective contractual terms under the employment agreements, if any, and is fixed by the Board with reference to the recommendation of the Remuneration Committee, the performance of the Group and the prevailing market conditions. Details of the remuneration of the Directors and senior management are set out in note 38 to the consolidated financial statements.

Senior Management's Remuneration

Senior Management's remuneration payment of the Group for the year ended 31 December 2015 falls within the following bands:

	Number of individuals
Nil to HKD1,000,000	2
HKD1,000,001 to HKD1,500,000	2
HKD1,500,001 to HKD2,000,000	2
HKD2,000,001 to HKD2,500,000	3
HKD2,500,001 to HKD3,000,000	1

Nomination Committee

The Company established the Nomination Committee with written terms of reference which was approved on 9 April 2010 and revised on 30 March 2012 and further revised on 27 August 2013. The terms of reference of the Nomination Committee is currently made available on the websites of the SEHK and the Company.

Terms of reference of the Nomination Committee are aligned with the code provisions set out in the CG Code.

Corporate Governance Report

The Nomination Committee is chaired by a Co-Chairman. The functions of the Nomination Committee are to review and monitor the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board and made recommendations on any proposed changes to the Board to complement the Group's corporate strategy; to identify suitably qualified individuals to become members of the Board; to assess the independence of the independent non-executive Directors; to review the board diversity policy, and the measurable objectives that the Board has set thereof, and the progress on achieving the objectives; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Co-Chairmen and the CEO. To enhance the quality of the performance of the Board and to achieve diversity on the Board, the Board adopted on 27 August 2013 its board diversity policy ("Board Diversity Policy").

The Board Diversity Policy sets out the approach to achieve diversity on the Board. The Company recognizes that increasing diversity at the Board level will support the attainment of the Company's strategic objectives and sustainable development. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company will also take into consideration its own business model and specific needs from time to time in determining the optimal composition of the Board.

The Board delegated certain duties under the Board Diversity Policy to the Nomination Committee. The Nomination Committee will discuss and review the measurable objectives for implementing the Policy from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

The Nomination Committee currently comprises five members as follows:

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

During the year ended 31 December 2015, the Nomination Committee held 1 meeting to review the structure, size and diversity of the Board, to assess the independence of the independent non-executive Directors and to consider the re-election of Directors.

Name of Director	Number of attendance
Mr. Na Qinglin	1/1
Mr. Tam Man Chi	1/1
Mr. Deng Xinping	1/1
Mr. Ong Chor Wei	1/1
Mr. Zhao Wei	1/1

Corporate Governance Committee

The Company established the CG Committee with written terms of reference which was adopted on 30 March 2012.

Terms of reference of the CG Committee are aligned with the code provisions set out in the CG Code.

The functions of the CG Committee are to develop and review the Company's policies and practices on corporate governance to comply with the CG Code and other legal or regulatory requirements and make recommendations to the Board; to oversee the Company's orientation program for new Director; to review and monitor the training and continuous professional development of Directors and senior management; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and to review the Company's disclosure in the Corporate Governance Report.

The CG Committee currently comprises three members as follows:

Mr. Na Qinglin *(Chairman)*
Mr. Kung Sze Wai
Mr. Chow Yu

During the year ended 31 December 2015, the CG Committee held 1 meeting for reviewing the Company's policies and practices on corporate governance; reviewing the training and continuous professional development of Directors and senior management; and reviewing the Company's compliance with the CG Code.

Name of Director/Member	Number of attendance
Mr. Na Qinglin	1/1
Mr. Kung Sze Wai	1/1
Mr. Chow Yu	1/1

External Audit

The Company's external auditor, PricewaterhouseCoopers, performs independent statutory audits on the Group's consolidated financial statements. The Audit Committee also has unrestricted access to external auditor as necessary. The Company's external auditor also reports to the Audit Committee any significant weaknesses in the Group's internal control system which might come to its notice during the course of audit.

Prior to the commencement of the audit of the Company, the Audit Committee should be received written confirmation from the external auditor on its independence and objectivity as required by the Hong Kong Institute of Certified Public Accountants.

Members of the Audit Committee have been satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers, and the Audit Committee has recommended to the Board the re-appointment of PricewaterhouseCoopers as the Company's external auditor.

Corporate Governance Report

Auditors' Remuneration

The Company paid/payable a total remuneration of RMB22,000,000 and USD18,000 to PricewaterhouseCoopers for their annual audit and non-audit services respectively during the year. The non-audit services mainly consist of taxation and consultancy services.

Company Secretary

Mr. Kung Sze Wai ("Mr. Kung") was appointed as the company secretary of the Company on 2 June 2010. The biographical details of Mr. Kung are set out under the section headed "Biographical Details of Directors and Senior Management".

According to the requirements of Rule 3.29 of the Listing Rules, Mr. Kung has taken not less than 15 hours of relevant professional training during the financial year ended 31 December 2015.

Communications with Shareholders and Investors

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Shareholders to Convene an extraordinary general meeting

Shareholders may convene an extraordinary general meeting of the Company according to the provisions as set out in the Articles and the laws of the Cayman Islands. The procedures shareholders can use to convene an extraordinary general meeting are set out in the document entitled "Procedures for a Shareholder to Propose a Person for Election as a Director", which is currently available on the Company's website.

Putting enquiries by shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for putting forward proposals by shareholders at shareholders' meeting

Shareholders should follow the procedures set out in the sub-section headed "Shareholders to convene an extraordinary general meeting" above for putting forward proposals for discussion at general meeting.

Shareholders' Rights

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholder at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all resolutions set out in the notice of the 2016 annual general meeting of the Company will be voted by poll.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The annual report together with the relevant circular and a notice of annual general meeting are distributed to all the shareholders at least 20 clear business days before the annual general meeting.

Constitutional Documents

There is no change in the Company's constitutional documents during the year.

Investor Relations

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:–

– delivery of annual and interim reports to all shareholders of the Company;

– publication of announcements on the annual and interim results on the websites of the SEHK and the Company, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and

– the general meeting of the Company is also an effective communication channel between the Board and shareholders of the Company.

Internal Control

The Board is responsible for maintaining a sound and effective system of internal controls and for reviewing its effectiveness. Such system is designed to manage the risk of failure to achieve corporate objectives. It aims to provide reasonable but not absolute assurance against material misstatement, loss or fraud. The Board has delegated to executive management the design, implementation and ongoing assessment of such system of internal controls, while the Board through its Audit Committee oversees and reviews the adequacy and effectiveness of relevant financial, operational and compliance controls and risk management procedures that have been in place. Qualified personnel throughout the Group maintain and monitor these system of controls on an ongoing basis.

During the year ended 31 December 2015, the Board has conducted a review of the system of internal control to ensure the effectiveness and adequacy of the system. It was concluded that the internal controls and accounting systems of the Group were in place and functioning effectively and were designed to provide reasonable assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorization and the accounts were reliable for publication. There was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

Directors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibility to prepare the Group's consolidated financial statements for each financial period which give a true and fair view of the financial position of the Group and of the Group's financial performance and cash flows for that period. In preparing the financial statements for the year ended 31 December 2015, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Directors' Report

The board (the "Board") of directors ("Directors") of O-Net Technologies (Group) Limited (the "Company") is pleased to submit their report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2015.

Change of Company Name

Pursuant to a special resolution passed at the extraordinary general meeting of the Company held on 4 December 2015, the shareholders of the Company have approved to change the name of the Company from "O-Net Communications (Group) Limited" to "O-Net Technologies (Group) Limited" and "昂納科技(集團)有限公司" has been adopted as its official Chinese name to replace "昂納光通信(集團)有限公司". With the approval of the Registrar of Companies in the Cayman Islands, the change of the company name became effective on 4 December 2015.

Principal Activities

The Group is principally engaged in the design, manufacturing and sale of optical networking products for the high-speed telecommunications and data communications systems as well as machine vision systems and sensors for smart manufacturing market.

Results and Appropriations

The Group's profit for the year ended 31 December 2015 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 59 to 141.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: Nil).

Business Review

Company's Business

Particulars of a discussion and analysis on the activities specified in Schedule 5 to the Hong Kong Companies Ordinance (Chatper 622, Laws of Hong Kong) ("Companies Ordinance"), including a fair review of the Group's business, future business expansion plan of the Company and analysis using financial key performance indicators, are set out in the sections headed "CHAIRMAN'S STATEMENT" and "MANAGEMENT DISCUSSION AND ANALYSIS". The above sections form an integral part of this report.

Principal Risks and Uncertainties Facing the Company

The Group's financial conditions, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Market Risk

Market risk is the risk that deteriorates profitability or affects the Group's ability to meet business objectives arising from the movement in market prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign exchange risk

Foreign exchange risk is further discussed in the section headed "MANAGEMENT DISCUSSION AND ANALYSIS".

Liquidity Risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows regularly and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. The management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Important Events Since the End of the Financial Year

There has been no material events since the end of the financial year.

Environmental Policies and Performance

With increasing concerns of environmental issues, both in governmental and civilian sectors become hypersensitive, despite certain expensive environment-friendly measures have been planned and will be implemented, we still concern that some more strict requirements could be put into practice.

Compliance with the Relevant Laws and Regulations

The Company was incorporated in the Cayman Islands and therefore the Company is subject to The Companies Law (2013 Revision) of the Cayman Islands. In addition, the Company is registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance and therefore is subject to the relevant provisions under the Companies Ordinance.

The Company is listed on the SEHK and therefore the Company is subject to the governance of the Listing Rules including the disclosure requirements and corporate governance provisions therein.

Under the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO"), the Company is required to maintain a register of interests in shares and short positions and a register of directors' and chief executives' interests in shares and short positions and is obliged to disclose price sensitive or inside information.

The Group is engaged in its business in the PRC, Europe, North America and other Asian countries and therefore is subject to the relevant laws and regulations of such countries.

As far as the Board and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Directors' Report

Key Relationships with Employees, Customers and Suppliers

The Company recognizes that employees are our valuable assets. Thus, the Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

The Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. Accordingly, the management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the year under review, there was no material and significant dispute between the Group and its business partners or bank enterprises.

Closure of Register of Members

For determining the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, 27 May 2016 ("2016 AGM"), the register of members of the Company will be closed from Thursday, 26 May 2016 to Friday, 27 May 2016, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2016 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 25 May 2016.

Share Capital

Details of movements in the Company's share capital for the year ended 31 December 2015 are set out in note 19 to the consolidated financial statements.

Shares Issued

During the year, the Company has allotted and issued new shares of HKD0.01 each upon exercise of share options under the Pre-IPO Share Option Scheme, details of which are set out in this report. The Company has also allotted and issued 26,000,000 new shares of HKD0.01 each to the trustee of the Share Award Scheme in order to grant award pursuant thereto. HKD260,000 has been paid by the Company from its resources to the trustee of the Share Award Scheme to subscribe for these shares.

Debentures Issued

No debenture has been issued during the year ended 31 December 2015.

Charitable Donations

During the year, the Group did not have charitable donation (2014: Nil).

Equity-Linked Agreements

Save for the share option schemes and the Share Award Scheme of the Group as set out below, no equity-linked agreement has been entered into by the Group during the year or subsisting at the end of the year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31 December 2015, the Company repurchased 1,858,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD1.58 to HKD1.70 per share on the SEHK. Details of the repurchases are as follows:

Month/Year	Number of shares repurchased	Purchase price per share		Aggregate purchase consideration (excluding expenses)
		Highest	Lowest	
		HKD	HKD	HKD
January 2015	1,858,000	1.70	1.58	3,068,000
	1,858,000			3,068,000

During the year, the Company, through the trustee of the Share Award Scheme, purchased from the market 10,119,000 shares for the purpose of the Share Award Scheme.

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

Distributable Reserves

As at 31 December 2015, the Company's reserves available for distribution to the shareholders amounted to approximately HKD539 million.

Directors' Report

Directors

The Directors of the Company during the year and up to the date of this report were as follows:

Executive Director

Mr. Na Qinglin *(Co-Chairman of the Board and CEO)*

Non-executive Directors

Mr. Tam Man Chi *(Co-Chairman of the Board)*
Mr. Chen Zhujiang
Mr. Huang Bin

Independent Non-executive Directors

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

In accordance with Article 84(1) of the Articles, Mr. Chen Zhujiang, Mr. Huang Bin and Mr. Zhao Wei shall retire from office as Directors by rotation at the 2016 AGM and, being eligible, offer themselves for re-election.

Independence Confirmation

The Company has received, from each of the independent non-executive Directors, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules on the SEHK. The Company considers all of the independent non-executive Directors are independent.

Share Option Schemes

Details of the Pre-IPO Share Option Scheme are set out in the Prospectus and Note 20 to the consolidated financial statements.

Post-IPO Share Option Scheme

The Company adopted the Post-IPO Share Option Scheme on 9 April 2010. The purpose of the Post-IPO Share Option Scheme is to enable the Board, at its discretion, to grant options to any eligible participants including but not limited to Directors and employees as incentives or rewards for their contribution to the Group. The maximum number of Shares which may be issued upon exercise all options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other schemes shall not exceed 30% of the issued shares of the Company from time to time. The number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme shall not exceed 10% of the issued shares of the Company on the date of listing of the Shares. No option may be granted to any eligible participant which, if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the options already granted or to be granted to such eligible participant under the Post-IPO Share Option Scheme (including exercised, cancelled and outstanding share options) in the 12-month period up to and including the date of such new grant exceeding 1% in aggregate of the Shares in issue as at the date of such grant. There is no minimum holding period for which an option must be held before exercise pursuant to the Post-IPO Share Option Scheme. The commencement date of the period during which an option may be exercised shall be determined by the Board and specified in the offer letter in respect of the option. An offer for the grant of option must be accepted within the time period specified in the relevant offer letter. A sum of HKD10.00 is payable as consideration upon acceptance of the offer.

The exercise price is the highest of (a) the nominal value of a share of the Company; (b) the closing price of a Share as stated in the SEHK's daily quotation sheet on the date of grant; and (c) the average closing price of a Share as stated in the SEHK's daily quotation sheets for the five business days immediately preceding the date of grant.

The share option scheme is valid and effective for a period of 10 years commencing on 9 April 2010, being its date of adoption.

Details of the movements in the Company's share options during the reporting period under the Post-IPO Share Option Scheme are set out below:

Name or category	Date of grant of share options	Exercisable period	Exercise price of share options (HKD)	Outstanding at 1 January 2015	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31 December 2015
Directors									
Mr. Deng Xinping	1 June 2012	2 June 2012 to 8 April 2020 (Note 1)	1.910	500,000	—	—	—	—	500,000
Mr. Ong Chor Wei	1 June 2012	2 June 2012 to 8 April 2020 (Note 1)	1.910	500,000	—	—	—	—	500,000
Mr. Zhao Wei	9 April 2014	28 March 2015 to 28 March 2019 (Note 14)	2.400	500,000	—	—	—	—	500,000
Sub-total				1,500,000	—	—	—	—	1,500,000
Other Employees	10 October 2011	10 October 2012 to 8 April 2020 (Note 2)	1.870	4,000,000	—	—	—	—	4,000,000
	1 June 2012	2 June 2012 to 8 April 2020 (Note 1)	1.910	9,135,000	—	—	—	(916,000)	8,219,000
		2 June 2012 to 8 April 2020 (Note 3)		1,517,000	—	—	—	(130,000)	1,387,000
		2 June 2013 to 8 April 2020 (Note 4)		3,113,000	—	(78,000)	—	(151,000)	2,884,000
		2 June 2012 to 8 April 2020 (Note 5)		8,316,000	—	(3,380,000)	—	(581,000)	4,355,000

Directors' Report

Name or category	Date of grant of share options	Exercisable period	Exercise price of share options (HKD)	Outstanding at 1 January 2015	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31 December 2015
Other Employees	9 October 2012	9 October 2013 to 8 April 2020 (Note 6)	1.810	2,000,000	—	—	—	—	2,000,000
	22 April 2013	12 February 2014 to 8 April 2020 (Note 7)	1.680	200,000	—	—	—	—	200,000
		3 March 2014 to 8 April 2020 (Note 8)		2,350,000	—	—	—	—	2,350,000
	11 September 2013	11 September 2014 to 8 April 2020 (Note 9)	1.708	2,000,000	—	—	—	—	2,000,000
	25 September 2013	13 August 2014 to 8 April 2020 (Note 10)	1.652	350,000	—	—	—	—	350,000
	16 October 2013	14 October 2014 (Note 11)	1.628	4,000,000	—	—	—	—	4,000,000
	8 November 2013	8 November 2014 to 8 April 2020 (Note 12)	1.484	8,820,000	—	(755,000)	—	(3,320,000)	3,852,000
	9 April 2014	28 March 2015 to 8 April 2020 (Note 13)	2.40	890,000	—	—	—	(51,000)	839,000
Total				48,191,000	—	(4,233,000)	—	(5,126,000)	38,832,000

Notes:

1. The vesting period of 40% of the share options was commenced on 2 June 2012, and the remaining 60% of the share options was commenced on 2 June 2013, equally over a period of 3 years.

2. The vesting period was commenced on 10 October 2012, equally over a period of 5 years.

3. The vesting period was commenced on 2 June 2012, equally over a period of 4 years.

4. The vesting period was commenced on 2 June 2013, equally over a period of 3 years.

5. The vesting period of 1/3 of the share options was commenced on 2 June 2012, and the remaining 2/3 of the share options was commenced on 13 July 2012, equally over a period of 2 years.

6. The vesting period was commenced on 9 October 2013, equally over a period of 5 years.

7. The vesting period was commenced on 12 February 2014, equally over a period of 5 years.

8. The vesting period was commenced on 3 March 2014, equally over a period of 5 years.

9. The vesting period was commenced on 11 September 2014, equally over a period of 5 years.

10. The vesting period was commenced on 13 August 2014, equally over a period of 5 years.

11. The vesting period was commenced on 14 October 2014, equally over a period of 4 years.

12. The vesting period was commenced on 8 November 2014, equally over a period of 5 years.

13. The vesting period was commenced on 28 March 2015, equally over a period of 5 years.

A total of 48,191,000 share options granted under the Post-IPO Share Option Scheme were remained outstanding on 1 January 2015. During the year 2015, 4,233,000 share options were exercised into 4,233,000 Shares. 5,126,000 share options were lapsed during the reporting period. Save as aforesaid, no further options were granted, cancelled and lapsed during the year ended 31 December 2015.

Restricted Share Award Scheme

On 9 May 2014, the Board adopted the Share Award Scheme as an incentive to recognise the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group.

The Share Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for 10 years from that date. Further details of the Share Award Scheme are set out in the announcement of the Company dated 9 May 2014.

The aggregate number of Restricted Shares currently permitted to be awarded under the Share Award Scheme throughout the duration of the Share Award Scheme is limited to 10% of the issued share capital of the Company from time to time. Pursuant to the rules governing the operation of the Share Award Scheme (the "Scheme Rules"), the Board may, from time to time, at their absolute discretion select the grantee(s) (the "Selected Grantee(s)") after taking into account various factors as they deem appropriate for participation in the Share Award Scheme as a grantee and determines the number of Restricted Shares to be awarded. The Restricted Shares will be comprised of Shares subscribed for or purchased by the trustee appointed by the Company for administration of the Share Award Scheme (the "Trustee") out of cash arranged to be paid by the Company out of the Company's funds to the Trustee and be held on trust for the relevant Selected Grantees until such Shares are vested with the relevant Selected Grantees in accordance with the Scheme Rules. The Company appointed O-Net Share Award Plan Limited as the Trustee.

When the relevant Selected Grantee has satisfied all vesting conditions specified by the Board at the time of making the award and become entitled to the Restricted Shares, the Trustee shall transfer the relevant Restricted Shares to that Grantee. The relevant Selected Grantee however is not entitled to receive any income or distribution, such as dividend derived from the Restricted Shares allocated to him, prior to the vesting of the Restricted Shares. The said income or distributions shall be used by the Trustee for purchase of further Shares for the Share Award Scheme (or may be used as payment of the Trustee's fees or expenses at the election of the Company when appropriate).

The Trustee shall not exercise the voting rights in respect of any Shares held on trust for the relevant Selected Grantees (including but not limited to the Restricted Shares, and further Shares acquired out of the income derived therefrom).

Directors' Report

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the sections headed "Share Option Schemes" above and in note 20 to the consolidated financial statements, at no time during the year ended 31 December 2015 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.

Directors' Service Contracts

Each of the executive Director and non-executive Directors has entered into a service agreement with the Company for a fixed term of three years commencing on 18 March 2014 unless terminated by not less than three months' notice in writing served by either party to the other or in accordance with the provisions set out in the respective service agreement. The executive Director may receive a discretionary bonus, the amount of which will be determined by reference to the comments of the Remuneration Committee.

Each of the independent non-executive Directors (except for Mr. Zhao Wei) has entered into a letter of appointment with the Company for a fixed term of three years commencing on 18 March 2014 unless terminated by not less than three months' notice in writing served by either party to the other.

Mr. Zhao Wei, an independent non-executive Director, has signed a letter of appointment with the Company for a term of three years commencing from 10 August 2012 renewable automatically for one year commencing from 10 August 2015 unless terminated by not less than three months' notice in writing served by either party on the other.

None of the Directors who are proposed for re-election at the 2016 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

None of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2015.

Directors' Interests in Shares

As at 31 December 2015, the interest or short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) ("SFO")) which were notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short position which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, are set out below:

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

Name of Director	Capacity	Long position/ short position	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Mr. Na Qinglin	Interest of controlled corporations	Long position	248,805,383 (Note 1)	33.99
Mr. Tam Man Chi	Beneficial owner	Long position	9,337,480	1.28
Mr. Deng Xinping	Beneficial owner	Long position	500,000 (Note 2)	0.07
Mr. Ong Chor Wei	Beneficial owner	Long position	500,000 (Note 2)	0.07
Mr. Zhao Wei	Beneficial owner	Long position	500,000 (Note 2)	0.07

Notes:

1. Mr. Na Qinglin ("Mr. Na") is deemed to be interested in (i) 243,573,383 shares of the Company held by O-Net Holdings (BVI) Limited, a company owned as to approximately 67.44% by Mandarin IT Fund I, which is managed by its investment manager, Mandarin VP (BVI) Limited, a wholly-owned subsidiary of Mandarin Venture Partners Limited, and in turn owned as to approximately 75% by Mr. Na; and (ii) 5,232,000 shares of the Company held by Mandarin Assets Limited, a company wholly and beneficially owned by Mr. Na. Therefore, Mr. Na is deemed to be interested in these 248,805,383 shares of the Company under the SFO.

2. These shares are derived from the interest in share options granted by the Company pursuant to the Post-IPO Share Option Scheme, details of which are set out in the section headed "Share Option Schemes".

Directors' Report

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

As at 31 December 2015, so far as is known to the Directors and chief executives of the Company, the interest or short positions of substantial shareholders/other persons in the shares and underlying shares of the Company, other than the interests of Directors as disclosed above, as recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Name	Capacity	Long position/ short position	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Kaifa Technology (H.K.) Limited	Beneficial owner	Long position	197,636,237	27.00
Shenzhen Kaifa Technology Co., Ltd.	Interest of a controlled corporation	Long position	197,636,237 (Note 1)	27.00
Great Wall Technology Company Limited	Interest of a controlled corporation	Long position	197,636,237 (Note 1)	27.00
O-Net Holdings (BVI) Limited	Beneficial owner	Long position	243,573,383	33.28
Mandarin IT Fund I	Interest of a controlled corporation	Long position	243,573,383 (Notes 2 & 3)	33.28
HC Capital Limited	Interest of a controlled corporation	Long position	243,573,383 (Notes 2 & 3)	33.28
Hsin Chong International Holdings Limited	Interest of a controlled corporation	Long position	243,573,383 (Notes 2 & 3)	33.28
Mr. Yeh Meou-Tsen, Geoffery	Interest of a controlled corporation	Long position	243,573,383 (Notes 2 & 3)	33.28
Mandarin VP (BVI) Limited	Investment manager of Mandarin IT Fund I	Long position	243,573,383 (Notes 2 & 4)	33.28
Mandarin Venture Partners Limited	Interest of a controlled corporation	Long position	243,573,383 (Notes 2 & 4)	33.28

Notes:

1. These 197,636,237 shares are held through Kaifa Technology (H.K.) Limited, a company wholly-owned by Shenzhen Kaifa Technology Co., Ltd., which in turn is a subsidiary of Great Wall Technology Company Limited; therefore, each of Shenzhen Technology Co., Ltd. and Great Wall Technology Company Limited is deemed to be interested in these 197,636,237 shares under the SFO.

2. These 243,573,383 shares are held through O-Net Holdings (BVI) Limited, a company owned as to approximately 67.44% by Mandarin IT Fund I.

3. Mandarin IT Fund I is owned as to 37.25% by HC Capital Limited, an indirect wholly-owned subsidiary of Hsin Chong International Holdings Limited with Mr. Yeh Meou-Tsen, Geoffery as its controlling shareholder; therefore, each of Mandarin IT Fund I, HC Capital Limited, Hsin Chong International Holdings Limited and Mr. Yeh Meou-Tsen, Geoffrey is deemed to be interested in 243,573,383 shares held by O-Net Holdings (BVI) Limited under the SFO.

4. Mandarin IT Fund I is managed by its investment manager, Mandarin VP (BVI) Limited, which is a wholly-owned subsidiary of Mandarin Venture Partners Limited, and in turn owned as to approximately 75% by Mr. Na Qinglin, the Co-Chairman, the Chief Executive Officer and an executive Director of the Company; therefore, each of Mandarin VP (BVI) Limited, Mandarin Venture Partners Limited and Mr. Na Qinglin is deemed to be interested in 243,573,383 shares held by O-Net Holdings (BVI) Limited under the SFO.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to 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 year ended 31 December 2015.

Major Customers and Suppliers

During the year, the Group's purchase from the five largest suppliers accounted for approximately 31.6% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 10.4% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 31.5% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 15.4% of the Group's total sales.

None of the Directors of the Company, their associates, nor any shareholder which to the best knowledge of the Directors own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and suppliers.

Permitted Indemnity Provision

The Company has arranged for appropriate insurance cover for Director's and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance when the Report of the Board of the Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

Directors' Report

Connected Transactions

Certain related party transactions as disclosed in note 36 to the consolidated financial statements also constituted connected transactions or continuing connected transaction under Chapter 14A of the Listing Rules which are required to be disclosed in the report.

Non-Exempt Continuing Connected Transactions

During the year ended 31 December 2015, the Group has the following continuing connected transactions that are subject to the annual review requirements under Chapter 14A of the Listing Rules:

(1) On 31 January 2013, 昂納信息技術(深圳)有限公司 (O-Net Communications (Shenzhen) Limited) ("O-Net Shenzhen"), a company incorporated in the PRC with limited liability and is a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "Tenancy Agreement") with 紅蝶科技(深圳)有限公司 (Butterfly Technology (Shenzhen) Limited) as tenant ("Butterfly"), a company incorporated in the PRC with limited liability which is owned as to 80% by Mr. Na Qinglin ("Mr. Na"), the Co-Chairman, the Chief Executive Officer and an executive Director of the Company, for the leasing to Butterfly the East Portion, 6/F., O-Net Park Complex, No. 35 Cuijing Road, Pingshan New District, Shenzhen, the PRC and up to 20 units of the vacant staff quarters of the adjacent dormitory building (the "Premises") for a term of 3 years commencing on 1 February 2013 and ended on 31 January 2016.

As Butterfly is owned as to 80% by Mr. Na and hence, an associate of Mr. Na and a connected person of the Company.

The annual cap for the rentals of the Premises and the utilities charges receivable from Butterfly under the Tenancy Agreement for the financial year ended 31 December 2015 is RMB3,126,000.

For the year ended 31 December 2015 the aggregate amount of rentals received/receivable from Butterfly amounted to approximately HKD1,595,000.

(2) On 21 May 2014, O-Net Shenzhen entered into a supply agreement ("Supply Agreement") with Butterfly for the supply on subcomponents, components, materials, article or goods, mainly for lens and surface mount technology (the "Relevant Products") to Butterfly by O-Net Shenzhen for a term of 3 years with retrospective effect from 1 January 2014 and ending on 31 December 2016.

The annual cap for the supply of the Relevant Products to Butterfly by O-Net Shenzhen under the Supply Agreement for the financial year ended 31 December 2015 is RMB8,000,000.

For the year ended 31 December 2015, the aggregate amount received/receivable from Butterfly amounted to approximately HKD2,001,000.

The independent non-executive Directors of the Company have reviewed the above non-exempt continuing connected transactions and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of the Group's business;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditor of the Company has reviewed the above continuing connected transactions and provided a letter to the Company confirming that in respect of the above continuing connected transactions:

(1) nothing has come to the auditor's attention that causes it to believe that the transaction has not been approved by the Board;

(2) nothing has come to the auditor's attention that causes it to believe that the transaction was not entered into, in all material respects, in accordance with the relevant agreement governing such transaction; and

(3) nothing has come to the auditor's attention that causes it to believe that the transaction has exceeded the maximum aggregate annual value disclosed in the announcement of the Company dated 21 May 2014 and 31 January 2013.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year and up to the date of this report.

Audit Committee

The Company established the Audit Committee on 9 April 2010 with written terms of reference in compliance with 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 audited consolidated financial statements of the Group for the year ended 31 December 2015 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.

Directors' Report

Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 30 to 41 of this annual report.

Auditors

A resolution will be submitted to the 2016 AGM to re-appoint PricewaterhouseCoopers as auditor of the Company.

On behalf of the Board
O-Net Technologies (Group) Limited
Na Qinglin
Co-Chairman and Chief Executive Officer

Hong Kong, 30 March 2016

Independent Auditor's Report

羅兵咸永道

To the shareholders of O-Net Technologies (Group) Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of O-Net Technologies (Group) Limited (the "Company") and its subsidiaries set out on pages 59 to 141, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2016

Consolidated Balance Sheet

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

	Note(s)	As at 31 December 2015 HKD'000	2014 HKD'000
ASSETS			
Non-current assets			
Land use right	6	**26,067**	28,353
Property, plant and equipment	7	**698,576**	638,291
Intangible assets	9	**41,388**	60
Investments accounted for using equity method	14	**15,553**	40,211
Deferred income tax assets	25	**10,436**	5,936
Available-for-sale financial assets	11	**12,272**	11,031
Derivative financial instruments	12	**1,322**	2,978
Other receivables	16	**27,908**	29,640
Other non-current assets	8	**25,185**	9,874
		858,707	766,374
Current assets			
Inventories	15	**227,538**	197,226
Trade and other receivables	16	**509,195**	404,376
Other current assets	17	**2,172**	7,498
Pledged bank deposits	18	**5,635**	761
Term deposits with initial term of over three months	18	**35,808**	101,411
Cash and cash equivalents	18	**133,910**	69,514
		914,258	780,786
Total assets		**1,772,965**	1,547,160
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	19	**7,319**	7,042
Share premium	19	**807,830**	804,319
Treasury shares	19	**(74,927)**	(57,859)
Other reserves		**51,373**	111,972
Retained earnings	21	**538,516**	456,006
		1,330,111	1,321,480
Non-controlling interests		**4,718**	–
Total equity		**1,334,829**	1,321,480

Consolidated Balance Sheet

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

	Note(s)	As at 31 December 2015 HKD'000	2014 HKD'000
LIABILITIES			
Non-current liabilities			
Deferred government grants	22	**15,852**	14,176
Current liabilities			
Trade and other payables	23	**340,897**	201,822
Current income tax liabilities		**3,141**	9,682
Other current liabilities		**3,817**	–
Borrowings	24	**74,429**	–
		422,284	211,504
Total liabilities		**438,136**	225,680
Total equity and liabilities		**1,772,965**	1,547,160

The notes on pages 66 to 141 are an integral part of these consolidated financial statements.

The financial statements on pages 59 to 141 were approved by the Board of Directors on 30 March 2016 and were signed on its behalf.

Na Qinglin
Director

Tam Man Chi
Director

Consolidated Income Statement

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

	Note(s)	Year ended 31 December 2015 HKD'000	2014 HKD'000
Revenue	5	**1,135,495**	831,280
Cost of sales	27	**(772,938)**	(542,331)
Gross profit		**362,557**	288,949
Other gains – net	26	**36,895**	8,506
Selling and marketing costs	27	**(49,450)**	(36,386)
Research and development expenses	27	**(135,080)**	(105,952)
Administrative expenses	27	**(134,024)**	(107,206)
Operating profit		**80,898**	47,911
Finance income	29	**9,448**	8,511
Finance expenses	29	**(5,676)**	–
Share of losses of investments accounted for using equity method	14	**(2,592)**	(5,058)
Profit before income tax		**82,078**	51,364
Income tax expenses	30	**(2,829)**	(8,020)
Profit for the year		**79,249**	43,344
Profit attributable to:			
Equity holders of the Company		**82,535**	43,344
Non-controlling interests		**(3,286)**	–
		79,249	43,344
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
– Basic	32	**0.12**	0.06
– Diluted	32	**0.12**	0.06

The notes on pages 66 to 141 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

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

	Year ended 31 December	
	2015	2014
	HKD'000	HKD'000
Profit for the year	**79,249**	43,344
Other comprehensive income		
Items that may be reclassified to profit or loss		
Share of other comprehensive loss of investment in a joint venture	**(53)**	(10)
Currency translation differences	**(72,909)**	(2,294)
Other comprehensive income for the year	**(72,962)**	(2,304)
Total comprehensive income for the year	**6,287**	41,040
Attributable to:		
Equity holders of the Company	**9,821**	41,040
Non-controlling interests	**(3,534)**	–
Total comprehensive income for the year	**6,287**	41,040

The notes on pages 66 to 141 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

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

	Attributable to equity holders of the Company							
	Share capital (Note 19) HKD'000	Share premium (Note 19) HKD'000	Treasury shares (Note 19) HKD'000	Other reserves HKD'000	Retained earnings (Note 21) HKD'000	Total HKD'000	Non-controlling interests HKD'000	Total equity HKD'000
Balance at 1 January 2014	7,239	847,424	–	106,520	412,875	1,374,058	–	1,374,058
Comprehensive income								
Profit for the year	–	–	–	–	43,344	43,344	–	43,344
Other comprehensive income								
Currency translation differences	–	–	–	(2,294)	–	(2,294)	–	(2,294)
Share of other comprehensive income of investment in a joint venture	–	–	–	(10)	–	(10)	–	(10)
Total comprehensive income	–	–	–	(2,304)	43,344	41,040	–	41,040
Transactions with equity holders in their capacity as equity holders								
Share option scheme – value of services (Note 28)	–	–	–	7,543	–	7,543	–	7,543
Share award schemes – shares purchased for restricted share award schemes (Note 19)	–	–	(56,634)	–	–	(56,634)	–	(56,634)
Repurchase and cancellation of shares	(213)	(46,105)	(1,225)	213	(213)	(47,543)	–	(47,543)
Exercise of share options	16	3,000	–	–	–	3,016	–	3,016
Balance at 31 December 2014	7,042	804,319	(57,859)	111,972	456,006	1,321,480	–	1,321,480

Consolidated Statement of Changes in Equity

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

	Attributable to equity holders of the Company							
	Share capital (Note 19) HKD'000	Share premium (Note 19) HKD'000	Treasury shares (Note 19) HKD'000	Other reserves HKD'000	Retained earnings (Note 21) HKD'000	Total HKD'000	Non-controlling interests HKD'000	Total equity HKD'000
Balance at 1 January 2015	7,042	804,319	(57,859)	111,972	456,006	1,321,480	–	1,321,480
Comprehensive income								
Profit for the year	–	–	–	–	82,535	82,535	(3,286)	79,249
Other comprehensive income								
Currency translation differences	–	–	–	(72,661)	–	(72,661)	(248)	(72,909)
Share of other comprehensive income of investment in a joint venture	–	–	–	(53)	–	(53)	–	(53)
Total comprehensive income	–	–	–	(72,714)	82,535	9,821	(3,534)	6,287
Transactions with equity holders in their capacity as equity holders								
Share option scheme – value of services (Note 28)	–	–	–	7,546	–	7,546	–	7,546
Share award schemes – value of services (Note 28)	–	–	–	4,544	–	4,544	–	4,544
Share award schemes – Proceeds from shares issued	260	–	(260)	–	–	–	–	–
Share award schemes – shares purchased for share award schemes (Note 19)	–	–	(18,033)	–	–	(18,033)	–	(18,033)
Repurchase and cancellation of shares	(25)	(4,268)	1,225	25	(25)	(3,068)	–	(3,068)
Exercise of share options	42	7,779	–	–	–	7,821	–	7,821
Non-controlling interests arising on business combination	–	–	–	–	–	–	8,252	8,252
Balance at 31 December 2015	7,319	807,830	(74,927)	51,373	538,516	1,330,111	4,718	1,334,829

The notes on pages 66 to 141 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

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

	Note(s)	Year ended 31 December 2015 HKD'000	2014 HKD'000
Cash flows from operating activities			
Cash generated from/(used in) operating activities	33	**128,808**	(5,315)
Tax refund		**2,399**	–
Income tax paid		**(3,162)**	(521)
Net cash from/(used in) operating activities		**128,045**	(5,836)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(15,410)**	–
Purchases of property, plant and equipment and payments for construction-in-progress		**(153,407)**	(135,552)
Purchase of intangible assets		**(732)**	–
Proceeds from government grant related to property, plant and equipment	22	**5,729**	10,788
Capital expenditure for capitalised development costs		**(19,894)**	(9,197)
Interest received		**2,958**	6,298
Proceeds from disposal of fixed assets		**410**	–
Decrease of term deposits with initial term of over three months		**65,603**	54,251
Investment in an associate		**–**	(23,400)
Purchase of available-for-sale financial assets	11	**(1,241)**	(7,591)
Net cash used in investing activities		**(115,984)**	(104,403)
Cash flows from financing activities			
Proceed from borrowings		**127,977**	–
Borrowings repayments		**(53,923)**	–
Repurchase of own shares		**(3,068)**	(47,543)
Proceeds from exercise of share options		**7,821**	3,016
Payments for purchase of shares for restricted share award schemes		**(18,033)**	(56,634)
Net cash from/(used in) financing activities		**60,774**	(101,161)
Net increase/(decrease) in cash and cash equivalents		**72,835**	(211,400)
Cash and cash equivalents at the beginning of the year		**69,514**	281,828
Exchange difference		**(8,439)**	(914)
Cash and cash equivalents at the end of the year		**133,910**	69,514

The notes on pages 66 to 141 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General Information

General Information

O-Net Technologies (Group) Limited (the "Company"), formerly known as "O-Net Communications (Group) Limited", 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 changed its name to the present name with the approval of the Board of Directors on 4 December 2015.

The Company and its subsidiaries (the "Group") are principally engaged in the design, manufacturing and sale of optical networking subcomponents, components, modules and subsystem for the high-speed telecommunications and data-communications. In 2015, the Group acquired two new subsidiaries (Note 35) which are principally engaged in similar products as the Group as well as fiber optic components and fiber sensors.

These consolidated financial statements are presented in Hong Kong dollars ("HKD"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 30 March 2016.

2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 Summary of Significant Accounting Policies *(Continued)*

2.1 Basis of Preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

Amendment to HKAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

Amendments from annual improvements to HKFRSs – 2010 – 2012 Cycle, on HKFRS 8, 'Operating segments', HKAS 16, 'Property, plant and equipment' and HKAS 38, 'Intangible assets' and HKAS 24, 'Related party disclosures'.

Amendments from annual improvements to HKFRS – 2011 – 2013 Cycle, on HKFRS 3, 'Business combinations', HKFRS 13, 'Fair value measurement' and HKAS 40, 'Investment property'.

The adoption of the improvements made in the 2010 – 2012 Cycle has required additional disclosures in the segment note. Other than that, the remaining amendments are not material to the Group.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.1 Basis of Preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures (Continued)

(b) New and amended standards that have been issued but are not effective for the financial year and have not been early adopted

		Effective for accounting periods beginning on or after
HKAS 1 (Amendments)	Disclosure Initiative	1 January 2016
HKFRS 9	Financial Instruments	1 January 2018
HKAS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture	1 January 2016
HKAS 10, HKAS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception	1 January 2016
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests In Joint Operation	1 January 2016
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
HKFRS 27 (Amendments)	Equity Method in Separate Financial Statements	1 January 2016
Annual Improvements Project	Annual Improvements 2012-2014 Cycle	1 January 2016

The Group did not early adopt any of these new amendments to existing standards. Management is currently assessing the financial impact of these revisions to the Group's financial position and performance.

(c) New Hong Kong Companies Ordinance (Cap.622)

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

2 Summary of Significant Accounting Policies *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation (Continued)

Business combinations *(Continued)*

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to confirm with the Group's accounting policies.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceed the total comprehensive income of the subsidiaries in the period the dividends are declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit of investments accounted for using equity method' in the income statement.

2 Summary of Significant Accounting Policies *(Continued)*

2.3 Associates *(Continued)*

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the income statement.

2.4 Joint Arrangements

The Group has applied HKFRS 11 to all joint arrangements as of 1 January 2013. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as senior executive management team, including the chairman and the chief executive officer, who make strategic decisions.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.6 Foreign Currency Translation

(a) *Functional and Presentation Currency*

The functional currency of the subsidiary in the People's Republic of China (the "PRC") is RMB, and the functional currency of the subsidiaries outside of the PRC is USD.

The consolidated financial statements of the Group are presented in HKD, which is the Company's presentation currency. The directors of the Company consider that such presentation is more appropriate for a company listed in Hong Kong and for the convenience of the readers of the financial statements.

(b) *Transactions and Balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other gains – net '.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in the available-for-sale revaluation reserve in other comprehensive income.

(c) *Group Companies*

The results and financial positions of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the Group are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) Income and expenses for each income statement are translated at average exchange rates(unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) All resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

2 Summary of Significant Accounting Policies *(Continued)*

2.7 Land Use Right

Land use right is up-front payments to acquire long-term interests in the usage of land and it is accounted for as an operating lease. It is stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.8 Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are expensed in the consolidated income statement in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	43 years
Machinery	5-10 years
Motor vehicles	5 years
Furniture, fitting and equipment	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to fixed assets when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized within other gains – net in the consolidated income statement.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.9 Intangible Assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) License and trademark

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 5 to 10 years.

(c) Patent

Patent represents purchased technology from third parties. It has a finite life and is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over its estimated useful life of 7 years.

(d) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line method over their estimated useful lives of 5 years.

2.10 Impairment of Non-financial Assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of Significant Accounting Policies *(Continued)*

2.11 Financial Assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables (excluding prepayments), pledged bank deposits, term deposits with initial term of over three months and cash and cash equivalents in the consolidated balance sheet (Notes 2.15 and 2.16).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.11.2 Recognition and Measurement

Regular way purchases and sales of financial assets are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method. However, for available-for-sales financial assets that do not have a quoted market price, the range of reasonable fair value estimates is significant and the possibilities of the various estimates cannot be reasonably assessed, is stated at cost.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.11 Financial Assets *(Continued)*

2.11.2 Recognition and Measurement (Continued)

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other gains when the Group's right to receive payments is established.

2.12 Impairment of Financial Assets

(a) Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the impairment loss is recognized in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

2 Summary of Significant Accounting Policies *(Continued)*

2.12 Impairment of Financial Assets *(Continued)*

(b) Assets classified as available for sale financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.13 Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The derivative instruments are accounted for at fair value through profit or loss. Changes in the fair value of any derivative instrument are recognized immediately in profit or loss.

2.14 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Trade and Other Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.15 Trade and Other Receivables *(Continued)*

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. When a trade receivable is uncollectible it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement.

2.16 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and at banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.17 Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to equity holders of the Company until the shares are cancelled or distributed.

2.18 Treasury Shares

The Company set up a share scheme trust ("Share Scheme Trust") for the purpose of purchasing the Company's shares from the market and award to employee in the future ("Share Award Schemes"). The consideration paid by the Share Scheme Trust for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Treasury Shares" and deducted from total equity.

When the Share Scheme Trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Treasury Shares", with a corresponding adjustment to "Share premium".

2 Summary of Significant Accounting Policies *(Continued)*

2.19 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.20 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Preference shares, if mandatorily redeemable at a specific date or redeemable at the option of the holder, are classified as liabilities. The dividends on these preference shares are recognized in the income statement as interest expense.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.21 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.22 Current and Deferred Income Tax

The tax expenses for the period comprise current and deferred tax. Tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Deferred income tax is recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 Employee Benefits

(a) *Employee Leave Entitlements*

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

2 Summary of Significant Accounting Policies *(Continued)*

2.23 Employee Benefits *(Continued)*

(b) *Pension Obligations*

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

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.

The Group's contributions to the defined contribution retirement benefit plans are expensed in the consolidated income statement as incurred.

(c) *Share-based compensation benefits*

The Group operates a number of share-based compensation plans (including share option schemes and share award schemes), under which the Group receives services from employees as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services received in exchange for the grant of equity instruments of the Group is recognized as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to share premium under equity.

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using an option-pricing model – Trinomial valuation model, which includes the impact of market performance conditions (such as the Company's share price) but excludes the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date. The Group also adopts valuation technique to assess the fair value of other equity instruments of the Group granted under the share-based compensation plans as appropriate.

Non-market performance and services conditions are included in assumptions about the number of options that are expected to become vested.

From the perspective of the Company, the Company grants its equity instruments to employees of its subsidiaries to exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses, which are recognized in the consolidated financial statement, are treated as part of the "Investments in subsidiaries" in the Company's statement of financial position.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.24 Share-based Payments

(a) Equity-settled share-based payment transactions

The Group operates two types of share-based compensation plans, including share option schemes and share award schemes (Note 2.18). The share option schemes comprise two share option schemes, one was adopted before the IPO (the "Pre-IPO Share Option Scheme") and another was adopted by the Company for issuance of share options after the IPO (the "Post-IPO Share Option Scheme"). Under the share-based compensation plans, the entities within the Group receive services from employees as consideration for equity instruments (including share options and awarded shares) of the Company or a shareholder of the Company. The fair value of the employee services received in exchange for the grant of the equity instruments of the Group is recognized as an expense over the vesting period. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

(i) including any market performance conditions (for example, an entity's share price);

(ii) excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

(iii) including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

Under the Pre-IPO Share Option Scheme, the shares authorized for the issuance of options are 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 proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

If the terms of an equity-settled award are modified, at a minimum an expense is recognized as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

2 Summary of Significant Accounting Policies *(Continued)*

2.24 Share-based Payments *(Continued)*

(a) Equity-settled share-based payment transactions (Continued)

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

If an equity award is cancelled by forfeiture, when the vesting conditions (other than market conditions) have not been met, any expense not yet recognized for that award, as at the date of forfeiture, is treated as if it had never been recognized. At the same time, any expense previously recognized on such cancelled equity awards are reversed from the accounts effective as at the date of forfeiture.

(b) Share-based payment transactions among group entities

The grant by the Company of its equity instruments to the employees of subsidiaries within the Group is treated as a deemed capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to the Company's investment in the subsidiaries, with a corresponding credit to equity in the Company's entity-level financial statements.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.25 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.26 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of Goods

Sales of goods are recognized when the risk and rewards of the goods have been transferred to the customer and collectability of the related receivables is reasonably assured.

(b) Interest Income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognized using the original effective interest rate.

(c) Dividend income

Dividend income is recognized when the right to receive payment is established.

2.27 Research and Development Costs

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(ii) the management intends to complete the intangible asset and use or sell it;

(iii) there is an ability to use or sell the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

2 Summary of Significant Accounting Policies *(Continued)*

2.27 Research and Development Costs *(Continued)*

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding ten years.

Development assets are tested for impairment annually.

2.28 Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.29 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statement as other gain over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.30 Dividend Distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Notes to the Consolidated Financial Statements

3 Financial Risk Management

3.1 Financial Risk Factor

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, liquidity risk and concentration risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from future commercial transactions and recognized assets and liabilities. The majority of the Group's foreign currency transactions and balances are denominated in USD (for entities within the Group using RMB as functional currency), HKD and RMB (for entities within the Group using USD as functional currency). Given HKD is pegged with USD, the directors of the Company consider that the related foreign exchange risk for HKD against USD is low. The major foreign exchange risk relates to the fluctuation of USD against RMB. The Group currently does not have a foreign currency hedging policy. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

At 31 December 2015, if USD had weakened/strengthened by 5% against RMB with all other variables held constant, profit before tax for the year would have been HKD3,900,000 (2014: HKD4,401,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated cash in banks and trade and other receivables. This sensitivity analysis ignores any offsetting foreign exchange factors and has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date.

(ii) Price risk

As at 31 December 2015, the Group did not hold any equity securities that were traded publicly. Accordingly, it was not exposed to commodity price risk (2014: none) as at 31 December 2015.

(iii) Cash flow and fair value interest rate risk

As at 31 December 2015, except for the term deposits and pledged bank deposits of HKD41,443,000 (2014: HKD102,172,000), which were held at fixed interest rate of 1.76% per annum (2014: 3.22% per annum), the Group had no other significant fixed-rate interest-bearing assets. The Group's interest rate risk arises from cash and cash equivalents and bank borrowings. Cash and cash equivalents bear variable interest rate at 0.01% to 0.35% per annum (2014: 0.01% to 0.35%). Borrowings at variable rates at 2.95% to 2.98% (2014: nil), expose the Group to cash flow interest rate risk that is broadly offset by cash at bank at variable rates generally reset on a monthly basis. The Group's income and operating cash flows are substantially independent of changes in market interest rates. At the reporting date, management does not anticipate significant impact resulting from the changes in interest rates.

3 Financial Risk Management *(Continued)*

3.1 Financial Risk Factor *(Continued)*

(b) Credit Risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, pledged bank deposits, term deposits with initial term of over three months and trade and other receivables.

For cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months, management manages the credit risk by placing deposits in state-owned financial institutions in the PRC or reputable banks, financial institutions having high-credit-quality in both the PRC and Hong Kong.

For trade and other receivables, the Group has policies in place to ensure that sale of goods are made to customers with an appropriate credit history. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

The carrying amounts of cash and cash equivalents, pledged bank deposits, term deposits with initial term of over three months and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

(c) Liquidity Risk

The Group aims to maintain sufficient cash and cash equivalents to ensure the availability of funding to meet the dynamic nature of the underlying businesses of the Group.

The table below analyzes the Group's and the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	**Less than 1 year** HKD'000
At 31 December 2015	
Borrowings (Including interests)	**75,553**
Trade and other payables excluding statutory liabilities and advance from customers	**300,378**
Other current liabilities	**3,817**
	379,748
At 31 December 2014	
Trade and other payables excluding statutory liabilities and advance from customers	178,138

Notes to the Consolidated Financial Statements

3 Financial Risk Management *(Continued)*

3.2 Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors its capital risk based on the debt-to-equity ratio. This ratio is calculated by dividing the net debt (total borrowings net of cash and cash equivalents) by the total owners' equity.

The Group did not have any net debt as at 31 December 2015 (2014: none).

3.3 Fair Value Estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

(i) Quoted price (unadjusted) in active markets for identical assets or liabilities (level 1).

(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015.

	Level 1 HKD'000	Level 2 HKD'000	Level 3 HKD'000	Total HKD'000
Assets				
Financial assets at fair value through profit or loss – Derivative financial instruments – Call options for equity investments	–	–	1,322	1,322

3 Financial Risk Management *(Continued)*

3.3 Fair Value Estimation *(Continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2014.

	Level 1 HKD'000	Level 2 HKD'000	Level 3 HKD'000	Total HKD'000
Assets				
Financial assets at fair value through profit or loss				
– Derivative financial instruments – Call options for equity investments	–	–	2,978	2,978

The following table presents the changes in level 3 instruments for the years ended 31 December 2015 and 2014.

	Financial assets at fair value through profit or loss – Derivative financial instruments – call option	
	2015 **HKD'000**	2014 HKD'000
At 1 January	**2,978**	2,451
Call options embedded in investment in an associate	**–**	1,269
Losses recognized in profit or loss	**(1,656)**	(742)
At 31 December	**1,322**	2,978
Total losses for the year included in profit or loss for assets held at the end of the year, under "Other gains – net" (Note 26)	**(1,656)**	(742)
Changes in unrealized losses for the year included in profit or loss at the end of the year	**(1,656)**	(742)

The fair value of the call option is estimated by discounting the expected future cash flow of the joint venture with significant inputs including risk free rate, expected volatility, expected dividend yield and underlying share price as at the valuation date (Note 12).

Notes to the Consolidated Financial Statements

4 Critical Accounting Estimates and Assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below:

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Fair Value of Derivatives and Other Financial Instruments

As described in Note 12, the fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for various foreign exchange contracts that are not traded in active markets.

(b) Enterprise Income Tax and Deferred Taxation

The Group's subsidiary that operates in the PRC is subject to enterprise income tax in the PRC. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers it's probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

In accordance with the enterprise income tax laws in the PRC, a 10% withholding tax will be levied on the dividend declared by the companies established in the PRC to their foreign investors starting from 1 January 2008. At 31 December 2015, deferred income tax liabilities of approximately HKD56,702,000 (2014: HKD 49,289,000) had not been recognized for withholding tax that would be payable on the unremitted earnings of approximately HKD567 million (2014: HKD493 million) of the PRC subsidiary. The directors of the PRC subsidiary had resolved not to distribute these earnings in the foreseeable future.

4 Critical Accounting Estimates and Assumptions *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(c) *Estimation on Impairment of Receivables*

The Group makes provision for impairment of receivables by making an assessment on the recoverability of trade and other receivables, with reference made to the magnitude and expected duration of recovery of the outstanding amounts. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

(d) *Write-downs of Inventories to Net Realizable Value*

The Group writes down inventories to net realizable value based on an assessment of the reliability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realized. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of inventories and write-downs of inventories in the years in which such estimate has been changed.

(e) *Recognition of Share-based Compensation Expenses*

As explained in more detail in Note 36, the Group had granted share options to its employees under the Post-IPO Share Option Scheme. The directors have used the Trinomial Model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the Trinomial Model.

The Group has to estimate the expected yearly percentage of grantees of share options that will stay with the Group at the end of the vesting period ("Expected Retention Rate") in determining the amount of share-based compensation expenses to be charged into the consolidated income statement. As at 31 December 2015, the Expected Retention Rate was assessed to be approximately 90%.

If the Expected Retention Rate had been increased by 5 percentage points, the amount of share-based compensation expenses charged to the consolidated income statement for the year ended 31 December 2015 would be increased by approximately HKD811,000 (2014: HKD765,000).

Notes to the Consolidated Financial Statements

4 Critical Accounting Estimates and Assumptions *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(f) *Useful lives adopted for property, plant and equipment*

The estimate of useful lives of property, plant and equipment was made by the management with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by the Group. It could change significantly as a result of technical innovations and competitor actions in responses to severe industry cycles.

If the estimated useful lives of property, plant and equipment had been higher/lower by 10% from management's estimates, the depreciation charge would have decreased/increased by HKD4,981,000 and HKD6,088,000, respectively.

(g) *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

According to the valuations results produced by the management of the Company based on the assumptions as disclosed in Note 9, management considered that no impairment charge was required against goodwill arising from acquisitions during the year.

In the opinion of the Company's directors, had the terminal growth rate been 1% lower with other assumptions held constant, or had the discount rate been 1% higher with other assumptions held constant, there would be no impairment charge needed to be made against goodwill of the Group for the year.

No impairment of goodwill was charged in the Group in 2015.

5 Segment Reporting

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

Due to the fact that the Group continued to diversify its product ranges, starting from the second half of 2010, the senior executive management team no longer review and assess the performance of each individual product or a particular category of products. Instead, 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. As a result of such change, the CODM considers that the Group has only one single operating segment and no segment information was disclosed.

All of the reported revenues from sales of goods were made to external customers for the year ended 31 December 2015 (2014: same).

5 Segment Reporting *(Continued)*

(a) Revenue from external customers in the PRC, Europe, North America and other Asia countries excluding the PRC, as determined by the destinations of shipment, is as follows:

	2015 HKD'000	2014 HKD'000
The PRC	**534,761**	369,001
Europe	**345,254**	266,657
North America	**150,080**	84,227
Other Asian countries excluding the PRC	**105,400**	111,395
	1,135,495	831,280

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 31 December 2015 and 2014 are as follows:

	2015 HKD'000	2014 HKD'000
The PRC	**724,706**	672,133
Hong Kong	**15,695**	40,408
North America	**66,368**	4,248
	806,769	716,789

(c) Revenue of approximately HKD169,623,000 (2014: HKD182,538,000) are derived from one (2014: one) external customer, which are more than 10% of the Group's total revenue.

During the year ended 31 December 2015, revenue of approximately HKD318,793,000 (2014: HKD337,316,000) was derived from three customers, which comprised 28% (2014: 41%) of the total revenue of the Group.

In the event that these three customers terminate their business relationship with the Group and the Group fails to find new customers, it may have a material adverse impact on the Group's financial position and result of operations.

Notes to the Consolidated Financial Statements

6 Land Use Right

The Group's interests in land use right represent prepaid operating lease payments for a piece of land located in the PRC and its net book value are analyzed as follows:

	2015 HKD'000	2014 HKD'000
Outside of Hong Kong		
– Lease of 50 years	**26,067**	28,353

	Land use right HKD'000
Year ended 31 December 2014	
Opening net book amount	29,119
Amortization charge	(665)
Translation difference	(101)
Closing net book amount	28,353
Year ended 31 December 2015	
Opening net book amount	28,353
Amortization charge	(656)
Translation difference	(1,630)
Closing net book amount	26,067

Amortization of land use right is recognized as an expense on a straight-line basis over the unexpired period of the rights. The remaining lease period of land use right as at 31 December 2015 was 41 years.

7 Property, Plant and Equipment

	Building HKD'000	Machinery HKD'000	Motor vehicles HKD'000	Furniture, fitting & equipment HKD'000	Construction in progress HKD'000	Total HKD'000
At 1 January 2014						
Cost	389,087	48,285	2,131	256,191	59,794	755,488
Accumulated depreciation	(5,731)	(26,963)	(1,023)	(150,877)	–	(184,594)
Net book amount	383,356	21,322	1,108	105,314	59,794	570,894
Year ended 31 December 2014						
Opening net book amount	383,356	21,322	1,108	105,314	59,794	570,894
Transfer	–	3,149	–	–	(3,149)	–
Additions	–	16,312	153	14,197	86,022	116,684
Disposals	–	–	–	(17)	–	(17)
Depreciation	(8,531)	(4,686)	(359)	(34,102)	–	(47,678)
Translation difference	(1,319)	(91)	(4)	22	(200)	(1,592)
Closing net book amount	373,506	36,006	898	85,414	142,467	638,291
At 31 December 2014						
Cost	387,785	67,578	1,951	270,248	142,467	870,029
Accumulated depreciation	(14,279)	(31,572)	(1,053)	(184,834)	–	(231,738)
Net book amount	373,506	36,006	898	85,414	142,467	638,291
Year ended 31 December 2015						
Opening net book amount	**373,506**	**36,006**	**898**	**85,414**	**142,467**	**638,291**
Transfer	**93,832**	**971**	**–**	**–**	**(94,803)**	**–**
Additions	**–**	**31,630**	**–**	**37,636**	**66,606**	**135,872**
Acquisition of subsidiaries (Note 35)	**–**	**11,902**	**359**	**3,535**	**–**	**15,796**
Disposals	**–**	**–**	**(374)**	**(12)**	**–**	**(386)**
Depreciation	**(8,977)**	**(12,130)**	**(314)**	**(33,372)**	**–**	**(54,793)**
Translation difference	**(21,448)**	**(2,481)**	**(63)**	**(3,891)**	**(8,321)**	**(36,204)**
Closing net book amount	**436,913**	**65,898**	**506**	**89,310**	**105,949**	**698,576**
At 31 December 2015						
Cost	**458,969**	**107,551**	**1,317**	**295,477**	**105,949**	**968,867**
Accumulated depreciation	**(22,056)**	**(41,257)**	**(811)**	**(206,167)**	**–**	**(270,291)**
Net book amount	**436,913**	**65,898**	**506**	**89,310**	**105,949**	**698,576**

Notes to the Consolidated Financial Statements

7 Property, Plant and Equipment *(Continued)*

(a) Depreciation expenses have been charged to the consolidated income statement as follows:

	2015 HKD'000	2014 HKD'000
Cost of sales	**34,995**	30,827
Selling and marketing costs	**200**	181
Research and development expenses	**12,091**	8,356
Administrative expenses	**7,507**	8,314
	54,793	47,678

(b) For the year ended 31 December 2015, lease rentals amounting to HKD3,771,000 (2014: HKD2,966,000) for leases of office buildings and plant of the Group had been included in the consolidated income statement.

(c) Construction in progress as at 31 December 2015 mainly comprised costs incurred for a new production plant under construction, which is located in Pingshan, Shenzhen, the PRC.

(d) As at 31 December 2015, the Group is in the process of applying the building ownership certificate of certain buildings with the aggregated carrying amounts amounted to HKD436,913,000 (31 December 2014: HKD373,506,000).

8 Other Non-Current Assets

	2015 HKD'000	2014 HKD'000
Capitalized expenditure of development costs (a)	**23,890**	9,197
Prepayment for purchase of property, plant and equipment	**1,171**	677
Other prepayments	**124**	–
	25,185	9,874

(a) Research and development costs amounting to HKD154,974,000 were incurred for the year ended 31 December 2015 (2014: HKD115,197,000), of which cost of HKD19,894,000 (2014: HKD9,197,000) relating to development of specific products were capitalised, with remaining balance being charged as expense in the consolidated income statement.

9 Intangible Assets

	Goodwill (a) HKD'000	License and Trademark HKD'000	Development costs HKD'000	Patent HKD'000	Computer Software HKD'000	Total HKD'000
At 1 January 2014						
Cost	–	–	–	210	1,080	1,290
Accumulated amortization	–	–	–	(180)	(955)	(1,135)
Net book amount	–	–	–	30	125	155
Year ended 31 December 2014						
Opening net book amount	–	–	–	30	125	155
Amortization charge	–	–	–	–	(94)	(94)
Translation difference	–	–	–	–	(1)	(1)
Closing net book amount	–	–	–	30	30	60
At 31 December 2014						
Cost	–	–	–	210	488	698
Accumulated amortization	–	–	–	(180)	(458)	(638)
Net book amount	–	–	–	30	30	60
Year ended 31 December 2015						
Opening net book amount	**–**	**–**	**–**	**30**	**30**	**60**
Acquisition of subsidiaries (Note 35)	**24,064**	**59**	**10,241**	**2,396**	**3,772**	**40,532**
Addition	**–**	**–**	**4,664**	**–**	**731**	**5,395**
Amortization charge	**–**	**(7)**	**(2,740)**	**(332)**	**(1,342)**	**(4,421)**
Translation difference	**–**	**(4)**	**(72)**	**(78)**	**(24)**	**(178)**
Closing net book amount	**24,064**	**48**	**12,093**	**2,016**	**3,167**	**41,388**
At 31 December 2015						
Cost	**24,064**	**55**	**14,905**	**2,409**	**4,671**	**46,104**
Accumulated amortization	**–**	**(7)**	**(2,812)**	**(393)**	**(1,504)**	**(4,716)**
Net book amount	**24,064**	**48**	**12,093**	**2,016**	**3,167**	**41,388**

The amortization charge has all been included in administrative expenses in the consolidated income statement (2014: same).

Notes to the Consolidated Financial Statements

9 Intangible Assets *(Continued)*

(a) Impairment tests for goodwill

Goodwill was acquired through business combinations from the acquisition of AtrIC (Note 35(a)), details of which were as below:

	2015 HKD'000
As at 12 March 2015 (date of acquisition)	**24,064**
As at 31 December 2015	**24,064**

Goodwill is monitored by the management at the operating segment level.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a ten-year period. Cash flows beyond the ten-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the businesses in which the CGU operates.

The key assumptions used for value-in-use calculations as at 31 December 2015 are as follows:

	2015
Growth rate	**3%**
Discount rate	**20%**

These assumptions have been used for the analysis of the CGU within the operating segment. Management estimated the growth rate based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the operating segment.

Management does not foresee any significant change in the key assumptions used in the value-in-use calculation that will cause the recoverable amount of goodwill to be less than its carrying amount.

10 Financial Instruments by Category

	Loans and receivables HKD'000	Assets at fair value through the profit and loss HKD'000	Available-for-sale financial assets HKD'000	Total HKD'000
Assets				
At 31 December 2015:				
Derivative financial instruments (Note 12)	**–**	**1,322**	**–**	**1,322**
Available-for-sale financial assets (Note 11)	**–**	**–**	**12,272**	**12,272**
Trade and other receivables excluding prepayment (Note16)	**521,473**	**–**	**–**	**521,473**
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 18)	**175,353**	**–**	**–**	**175,353**
Total	**696,826**	**1,322**	**12,272**	**710,420**
At 31 December 2014:				
Derivative financial instruments (Note 12)	–	2,978	–	2,978
Available-for-sale financial assets (Note 11)	–	–	11,031	11,031
Trade and other receivables excluding prepayments (Note 16)	421,600	–	–	421,600
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 18)	171,686	–	–	171,686
Total	593,286	2,978	11,031	607,295

Notes to the Consolidated Financial Statements

10 Financial Instruments by Category *(Continued)*

	Financial liabilities at amortized cost HKD'000
Liabilities	
At 31 December 2015:	
Borrowings (Note 24)	**74,429**
Trade and other payables excluding statutory liabilities and advance from customers (Note 23)	**300,378**
Other current liability	**3,817**
	378,624
At 31 December 2014:	
Trade and other payables excluding statutory liabilities and advance from customers (Note 23)	178,138

11 Available-for-sale Financial Assets

	2015 HKD'000	2014 HKD'000
At 1 January	**11,031**	3,440
Addition	**1,241**	7,591
At 31 December	**12,272**	11,031

Available-for-sale financial assets represent the Group's unlisted equity interest in a company established in Germany and a company established in Taiwan. The investments are denominated in USD and Taiwan Dollar, respectively.

Given that these assets do not have quoted marked price, they are measured at cost less impairment at balance sheet date, which in the opinion of the directors, approximated the fair value of the assets.

12 Derivative Financial Instruments

	2015		2014	
	Assets	**Liabilities**	Assets	Liabilities
	HKD'000	**HKD'000**	HKD'000	HKD'000
Call option embedded in investment in a joint venture (Note 14)	**1,225**	**–**	2,451	–
Call options embedded in investment in a subsidiary	**97**	**–**	–	–
Call options embedded in investment in an associate	**–**	**–**	527	–
	1,322	**–**	2,978	–

The Group invested in a joint venture in 2013 and as stipulated in the investment agreements, the Group was granted an option to acquire from the joint venture partner a 35% interest of the shares of the joint venture at a fixed purchase price of USD10,000,000 during a period from 4 June 2013 to 4 June 2017.

The movement of above call option is set out below:

	2015	2014
	HKD'000	HKD'000
At 1 January	**2,978**	2,451
Call option in relation to investment in an associate	**–**	1,269
Losses recognized in profit or loss	**(1,656)**	(742)
At 31 December	**1,322**	2,978

Notes to the Consolidated Financial Statements

12 Derivative Financial Instruments *(Continued)*

The fair value of the call option in relation to investment in a joint venture is estimated by discounting the expected future cash flow of the joint-venture with significant inputs as follows:

	2015	2014
Risk-free rate	**1.03%**	1.03%
Expected volatility	**56.24%**	56.24%
Expected dividend yield	**0.00%**	0.00%

13 Subsidiaries

The following is a list of the principal subsidiaries at 31 December 2015:

Name	Date of incorporation	Place of incorporation	Share capital or paid-in capital	Interest held directly	Interest held indirectly	Principal activities and place of operation
O-Net Automation Technology (Shenzhen) Limited ("O-Net Auto SZ")	10 May 2013	Shenzhen, the PRC	RMB50,000,000	–	100%	Design, manufacturing and sales of automation products, Shenzhen, the PRC
O-Net Communications (USA), Inc. ("O-Net USA")	20 August 2012	USA	USD100	–	100%	Research and development centre with major operation in USA
O-Net Automation Technology (HK) Limited ("O-Net Auto")	27 June 2012	Hong Kong	HKD10,000	–	100%	Investment holding
O-Net Communications Holdings Limited ("O-Net BVI")	6 November 2006	BVI	USD28,991	100%	–	Investment holding
O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen")	23 October 2000	Shenzhen, the PRC	HKD300,000,000	–	100%	Design, manufacturing and sales of optical networking products, Shenzhen, the PRC
O-Net Communications (HK) Limited ("O-Net Hong Kong")	25 September 2000	Hong Kong	HKD1,000,000	–	100%	Sales of optical networking products, Hong Kong
ArtIC Photonics, Inc. ("ArtIC") (Note 14(a)) (Note 35)	23 September 2013	Canada	HKD24,180,000	–	45.7%	Design and development of optical component products, Canada
ITF Technologies Inc. ("ITF") (Note 35)	25 May 1995	Canada	USD5,000,000	–	100%	Manufacturing and distributing fiber optic components and fiber sensors

13 Subsidiaries *(Continued)*

(a) Consolidation of structured entity

Due to the implementation of the restricted share award schemes of the Group mentioned in Note 20(b), the Company has also set up a structured entity ("O-net Share Award Plan Limited"), and its particulars are as follows:

Structured entity	Principal activities
O-net Share Award Plan Limited	Administering and holding the Company's shares acquired for restricted share award schemes which are set up for the benefits of eligible persons of the Schemes

As the Company has the power to govern the financial and operating policies of O-net Share Award Plan Limited and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the schemes, the directors of the Company consider that it is appropriate to consolidate the O-net Share Award Plan Limited.

For the year ended 31 December 2015, the Company contributed HKD18,560,000 (2014: HKD56,710,000) to O-net Share Award Plan Limited for financing its acquisition of the Company's shares.

14 Investments Accounted for using the Equity Method

The amounts recognized in the balance sheet are as follows:

	2015 HKD'000	2014 HKD'000
An associate (a)	**–**	22,542
A joint venture (b)	**15,553**	17,669
At 31 December	**15,553**	40,211

The amounts recognized in the income statement are as follows:

	2015 HKD'000	2014 HKD'000
Share of loss from–		
An associate	**(529)**	(1,638)
A joint venture	**(2,063)**	(3,420)
For the year ended 31 December	**(2,592)**	(5,058)

Notes to the Consolidated Financial Statements

14 Investments Accounted for using the Equity Method *(Continued)*

(a) Investment in an Associate

Set out below is the detail of the only associate of the Group as at 31 December 2015 and 2014. The associate has share capital consisting of ordinary shares and preferred shares. Preferred shares are held directly by the Group; the country of incorporation is also its principal place of business.

	2015 HKD'000	2014 HKD'000
At 1 January	**22,542**	–
Additions	**–**	24,180
Share of loss	**(529)**	(1,638)
Transferred to investment in a subsidiary	**(22,013)**	–
At 31 December	**–**	22,542

Name of entity	Place of incorporation	% of ownership interest	Nature of the relationship	Measurement method
ArtIC Photonics, Inc. ("ArtIC")	Canada	45.7%	Note 1	Cost

Note 1: On 27 Jan 2014, the Group subscribed for 6,304,116 preferred shares of ArtIC representing around 38% of the issued share capital of ArtIC at a cash consideration of USD3,100,000 (equivalent to approximately HKD24,180,000). ArtIC is a private company incorporated in Canada, which is engaged in the custom design and fabless development of photonic integrated circuit chips for use in optical component products in telecom and datacom markets. The Group was also granted a follow-up option to subscribe for 2,857,091 preferred shares of ArtIC at fixed purchase price of USD2,000,000 in 18 months after 27 January 2014 and a buy-out option to acquire all of the issued and outstanding shares not owned by O-Net at fixed purchase price of USD20,000,000 during 3 years from 27 January 2014. If the Group exercised the follow-up option in 18 months after 27 January 2014, the buy-out option exercise period can be extended to 6 years from 27 January 2014. As at 31 December 2014, the Group is not expected to exercise these options, as the options are out-of money and exercise of the option would be disadvantageous to the Group. Accordingly, the investment in ArtIC was accounted for as an associate by the Company as at 31 December 2014. The fair value of such options amounted to HKD527,000 as at 31 December 2014.

On 12 March 2015, ArtIC re-purchased and cancelled 2,888,900 common shares held by one of its shareholders. After the cancellation, the Group held 45.7% of ownership interest in ArtIC. However, given the Group had over 50% of voting right in ArtIC after the shares cancellation, and it had control over ArtIC according to the revised shareholders agreement, ArtIC became a subsidiary of the Company from on 12 March 2015. As at 31 December 2015, the follow-up option amounted to HKD430,000 has been derecognized due to expiry and the buy-out option has been transferred to investment in a subsidiary.

The Group accounted for such additional investment in ArtIC as a disposal of investment in an associate and an acquisition of subsidiary, happening concurrently. As a result, a gain from disposal of an associate of HKD8,997,000 (Note 26) was recognized in the consolidated income statement. For details of the acquisition of ArtIC as a subsidiary, please refer to Note 35(a).

14 Investments Accounted for using the Equity Method *(Continued)*

(b) Investment in a Joint Venture

	2015 HKD'000	2014 HKD'000
At 1 January	**17,669**	21,099
Share of loss	**(2,063)**	(3,420)
Other comprehensive income	**(53)**	(10)
At 31 December	**15,553**	17,669

The joint venture listed below has share capital consisting solely of ordinary shares, which is held directly by the Group.

(i) Nature of investment in a joint venture as at 31 December 2015 and 2014:

Name of entity	Place of incorporation	% of ownership interest	Nature of the relationship	Measurement method
O-Net Wave Touch Limited ("O-Net WaveTouch")	Hong Kong	40%	Note 1	Equity

Note 1: O-Net WaveTouch was incorporated by the Group for the purpose of development of the wave touch technology together with an independent third party pursuant to an investment agreement signed on 4 June 2013. According to the Memorandum and Article of Association of O-Net WaveTouch ("O-Net WaveTouch M&A"), the Group has joint control with the counter party over O-Net WaveTouch as unanimous consent is required from both parties for all significant day-to-day operating activities, future capital fund raising as well as future business development. Despite the Group was granted an option to acquire from the counter party an additional 35% of the shares of O-Net WaveTouch at fixed purchase price of USD10,000,000 from 4 June 2013 to 4 June 2017, unanimous consent is still required from both parties for all above-mentioned business activities. Accordingly, the investment in O-Net WaveTouch has been accounted for as a joint venture by the Group.

O-Net WaveTouch is a private company with no quoted market price.

There are no contingent liabilities relating to the Group's interest in the joint venture.

Notes to the Consolidated Financial Statements

14 Investments Accounted for using the Equity Method *(Continued)*

(b) Investment in a Joint Venture *(Continued)*

(ii) Summarized financial information for a joint venture

Set out below are the summarized financial information for O-Net WaveTouch which is accounted for using equity method.

Summarized balance sheet

	2015 HKD'000	2014 HKD'000
Current		
Cash and cash equivalents	**2,889**	8,093
Other current assets	**174**	527
Total current assets	**3,063**	8,620
Current liabilities	**(687)**	(1,031)
Non-current		
Total non-current assets	**36,507**	36,584
Net assets	**38,883**	44,173

Summarized statement of comprehensive income

	2015 HKD'000	2014 HKD'000
Research and development costs	**(3,533)**	(5,149)
Administrative expenses	**(1,625)**	(3,400)
Loss before income tax	**(5,158)**	(8,549)
Income tax expense	**–**	–
Loss for the year	**(5,158)**	(8,549)
Other comprehensive income	**(132)**	(27)
Total comprehensive income	**(5,290)**	(8,576)

The information above reflects the amounts as presented in the financial statements of O-Net WaveTouch, and not the Group's share of those amounts.

14 Investments Accounted for using the Equity Method *(Continued)*

(b) Investment in a Joint Venture *(Continued)*

(iii) Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of the Group's interest in the joint venture is as follows:

Summarized financial information

	2015 HKD'000	2014 HKD'000
Opening net assets	**44,173**	52,749
Loss for the year	**(5,158)**	(8,549)
Other comprehensive income	**(132)**	(27)
Closing net assets	**38,883**	44,173
Interest in a joint venture (40%)	**15,553**	17,669
Carrying value	**15,553**	17,669

15 Inventories

	2015 HKD'000	2014 HKD'000
Cost:		
Raw materials	**114,996**	95,768
Work-in-progress	**58,770**	52,688
Finished goods	**62,219**	56,543
	235,985	204,999
Less: provision for write-down of inventories to net realizable values	**(8,447)**	(7,773)
	227,538	197,226

For the year ended 31 December 2015, the cost of inventories recognized as cost of sales, selling and marketing costs, research and development expenses, administrative expenses and capitalised expenditure of development costs amounted to HKD574,413,000 (2014: HKD425,913,000).

For the year ended 31 December 2015, the Group made provision for write-down of inventories of HKD895,000 (2014: reversed inventory write-down of HKD7,124,000).

Notes to the Consolidated Financial Statements

16 Trade and Other Receivables

	2015 HKD'000	2014 HKD'000
Trade receivables (a)	**396,642**	304,199
Less: provision for impairment of receivables (b)	**(1,639)**	(727)
Trade receivables – net	**395,003**	303,472
Amounts due from related parties (a) (Note 36(d))	**7,897**	5,427
Bills receivable (c)	**75,711**	72,093
Prepayments	**15,630**	12,416
Interest receivables	**257**	1,822
Other receivables (d)	**42,605**	38,786
	537,103	434,016
Less non-current portion: other receivables (d)	**(27,908)**	(29,640)
Current portion	**509,195**	404,376

All non-current receivables are due within five years from the end of the year.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. Except for the non-current portion of other receivable, the Group does not hold any collateral as security.

At 31 December 2015, the fair value of trade and other receivables of the Group approximated their carrying amounts (2014: same).

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2015 HKD'000	2014 HKD'000
RMB	**410,862**	222,065
USD	**121,594**	206,875
HKD	**17**	3,883
CAD	**3,241**	–
JPY	**1,389**	1,193
	537,103	434,016

16 Trade and Other Receivables *(Continued)*

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:

(a) Trade receivables (including trade receivable due from related parties)

	2015 HKD'000	2014 HKD'000
Within 30 days	**155,626**	96,777
31 to 60 days	**94,918**	77,969
61 to 90 days	**90,386**	69,885
91 to 180 days	**41,432**	53,002
181 to 365 days	**13,649**	5,393
Over 365 days	**4,037**	6,600
	400,048	309,626

At 31 December 2015, trade receivables of HKD82,400,000 (2014: HKD100,559,000) were past due but not impaired. They relate to a number of independent customers that have good reputation and good trading and settlement history maintained with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances since there have not been any significant changes in their credit quality and the balances are considered fully recoverable.

The ageing analysis of these past due trade receivables is as follows:

	2015 HKD'000	2014 HKD'000
Past due 1 to 90 days	**64,720**	76,964
Past due 91 to 180 days	**5,042**	16,312
Past due 181 to 365 days	**9,887**	4,328
Past due over 365 days	**2,751**	2,955
	82,400	100,559

Notes to the Consolidated Financial Statements

16 Trade and Other Receivables *(Continued)*

(a) Trade receivables (including trade receivable due from related parties) *(Continued)*

At 31 December 2015, trade receivables of HKD1,639,000 (2014: HKD727,000) were impaired. All these balances had been fully provided for impairment losses. The ageing of these trade receivables is based on invoice date as follows:

	2015 HKD'000	2014 HKD'000
Past due over 365 days	**1,639**	727

(b) Movement of the provision for impairment of trade receivables is as follows:

	2015 HKD'000	2014 HKD'000
At 1 January	**727**	480
Provision of impairment	**990**	247
Translation difference	**(78)**	–
At 31 December	**1,639**	727

(c) Bills receivable are with maturity dates between 30 and 180 days. The ageing analysis of bills receivable is as follows:

	2015 HKD'000	2014 HKD'000
Within 30 days	**20,546**	11,373
31 to 90 days	**23,007**	24,493
91 to 180 days	**32,158**	36,227
	75,711	72,093

The other classes within trade and other receivables do not contain impaired assets.

16 Trade and Other Receivables *(Continued)*

(d) Other receivables

Included in the other receivable is a balance due from Integrated Photonics, Inc. ("IPI"), a third-party supplier of the Group amounting to HKD27,908,000 (2014:HKD29,640,000), 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 HKD29,640,000) 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.

17 Other Current Asset

	2015 HKD'000	2014 HKD'000
Value-added tax to be recovered	**2,172**	7,498

18 Cash and Cash Equivalents, Term Deposits with Initial Term of over Three Months and Pledged Bank Deposits

	2015 HKD'000	2014 HKD'000
Cash and cash equivalents	**133,910**	69,514
Term deposits with initial term of over three months	**35,808**	101,411
Pledged bank deposits (a)	**5,635**	761
	175,353	171,686

Notes to the Consolidated Financial Statements

18 Cash and Cash Equivalents, Term Deposits with Initial Term of over Three Months and Pledged Bank Deposits *(Continued)*

(a) The pledged bank deposits had been pledged as guarantee for payables to contractors and suppliers for the construction of a new factory facility and for bills payables to raw material suppliers of the Group.

(b) Cash and cash equivalents, term deposits with initial term of over three months and pledged bank deposits are denominated in the following currencies:

	2015 HKD'000	2014 HKD'000
RMB	**105,275**	143,778
USD	**57,740**	14,500
HKD	**1,318**	13,408
CAD	**11,020**	–
	175,353	171,686

Cash at bank earned interest at floating rate.

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

The effective interest rate for the term deposits of the Group with initial term of over three months as at 31 December 2015 was 1.69% (2014: 3.22%).

19 Share Capital, Share Premium and Treasury Shares

	Number of ordinary shares	Ordinary share capital HKD'000	Share premium HKD'000	Treasury shares HKD'000
At 1 January 2014	723,870,240	7,239	847,424	–
Repurchase of shares during the year	(21,210,000)	(213)	(46,105)	(1,225)
Share award schemes – shares purchased for restricted share award schemes (c)	–	–	–	(56,634)
Exercise of share options	1,579,000	16	3,000	–
At 31 December 2014	704,239,240	7,042	804,319	(57,859)
Repurchase and cancellation of shares during the year (a)	**(2,541,000)**	**(25)**	**(4,268)**	**1,225**
Share award schemes – Proceeds from shares issued and transferred to Treasury shares (b)	**26,000,000**	**260**	**–**	**(260)**
Share award schemes – shares purchased for restricted share award schemes(c)	**–**	**–**	**–**	**(18,033)**
Exercise of share options	**4,233,000**	**42**	**7,779**	**–**
At 31 December 2015	**731,931,240**	**7,319**	**807,830**	**(74,927)**

(a) During the year ended 31 December 2015, the Company repurchased and cancelled 1,858,000 and 2,541,000 ordinary shares (included 683,000 shares purchased by the Company in 2014), respectively.

(b) During the year ended 31 December 2015, the Company issued 26,000,000 ordinary shares for the restricted share award scheme (Note 20 (b)) and they were transferred to Treasury shares.

(c) During the year ended 31 December 2015, O-net Share Award Plan Limited acquired and withheld 10,119,000 (2014: 25,000,000) ordinary shares of the Company for a total consideration of HKD18,033,000 (2014: HKD56,634,000).

Notes to the Consolidated Financial Statements

20 Share-Based Payments

(a) Share Option Schemes

(i) Pre-IPO Share Option Scheme

Under the Pre-IPO Share Option Scheme, three types of share options are granted to those grantees with zero exercise price and with graded or non-graded vesting period over 1 to 3 years. As of 31 December 2015, the outstanding number of share options under the pre-IPO share option scheme was 422,152 (2014: 924,145 shares, with the expiry dates between April 2015 and October 2016) with the expiry dates before October 2016. All the share options under the pre-IPO share option scheme are exercisable.

(ii) Post-IPO Share Option Scheme

Since the year ended 31 December 2011, the Company granted share options to certain employees and directors under the Post-IPO Share Option Scheme adopted by the Group on 9 April 2010 ("Post-IPO Share Option Scheme").

The exercise price was determined by the directors of the Company at the higher of (i) the closing price of the share as stated in the SEHK'S daily quotations sheet on the date of grant; (ii) the average closing price per share as stated in the SEHK'S daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of HKD0.01 per share.

20 Share-Based Payments *(Continued)*

(a) Share Option Schemes *(Continued)*

(ii) Post-IPO Share Option Scheme (Continued)

Details of the Post-IPO share options are as follows:

Date of grant	Number of share options granted	Number of share options outstanding as at 31 December 2015	Exercise price	Vesting date
10 October 2011	Tranches 1, 2, 3, 4 & 5: 800,000 (Total: 4,000,000)	4,000,000	HKD1.870	Tranches 1, 2, 3, 4 & 5 (for a senior management personnel): vesting period commences at the end of the anniversary of the grant date, equally over a period of 5 years.
1 June 2012	Tranche 1: 14,929,000 Tranche 2: 1,360,000 Tranche 3: 4,390,000 Tranche 4: 13,172,000 (Total: 33,851,000)	18,245,000	HKD1.910	Tranche 1 (for certain directors and employees): (i) 40% of the Replacement Options shall be exercisable from 2 June 2012; (ii) another 20% of the Replacement Options shall be exercisable from 2 June 2013; (iii) another 20% of the Replacement Options shall be exercisable from 2 June 2014; and (iv) the remaining Replacement Options shall be exercisable from 2 June 2015. Tranche 2 (for certain employees): vesting period commences at 2 June 2012, equally over a period of 4 years. Tranche 3 (for one director and certain employees): vesting period commences at 2 June 2013, equally over a period of 3 years. Tranche 4 (for one director and certain employees): vesting period commences at 2 June 2012, equally over a period of 3 years.
9 October 2012	Tranches 1, 2, 3, 4 & 5: 400,000 (Total: 2,000,000)	2,000,000	HKD1.800	Tranches 1, 2, 3, 4 & 5 (for a senior management personnel): vesting period commences at the end of the anniversary of the grant date, equally over a period of 5 years.

Notes to the Consolidated Financial Statements

20 Share-Based Payments *(Continued)*

(a) Share Option Schemes *(Continued)*

(ii) Post-IPO Share Option Scheme (Continued)

Details of the Post-IPO share options are as follows: *(Continued)*

Date of grant	Number of share options granted	Number of share options outstanding as at 31 December 2015	Exercise price	Vesting date
22 April 2013	Tranche 1: 200,000 Tranche 2: 2,350,000 Tranche 3: 350,000 (Total: 2,900,000)	2,550,000	HKD1.680	Tranche 1 (for certain employees): vesting period commences at 12 February 2014, equally over a period of 5 years. Tranche 2 (for certain employees): vesting period commences at 3 March 2014, equally over a period of 5 years. Tranche 3 (for certain employees): vesting period commences at 7 April 2014, equally over a period of 5 years.
11 September 2013	Tranches 1, 2, 3, 4 & 5: 400,000 (Total: 2,000,000)	2,000,000	HKD1.708	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 11 September 2014, equally over a period of 5 years.
25 September 2013	Tranches 1, 2, 3, 4 & 5: 70,000 (Total: 350,000)	350,000	HKD1.652	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 13 August 2014, equally over a period of 5 years.
16 October 2013	Tranches 1, 2, 3 & 4: 1,000,000 (Total: 4,000,000)	4,000,000	HKD1.628	Tranches 1, 2, 3 & 4 (for certain employees): vesting period commences at 14 October 2014, equally over a period of 4 years.
8 November 2013	Tranches 1, 2, 3, 4 & 5: 2,060,000 (Total: 10,300,000)	4,042,000	HKD1.484	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 8 November 2014, equally over a period of 5 years.
9 April 2014	Tranches 1, 2, 3, 4 & 5: 374,000 (Total: 1,870,000)	1,350,000	HKD2.40	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 28 March 2015, equally over a period of 5 years.
		38,537,000		

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

20 Share-Based Payments *(Continued)*

(a) Share Option Schemes *(Continued)*

(iii) Movements in the number of share options (pre-IPO and post-IPO) outstanding and their related weighted average exercise prices

	2015 Average exercise price in HKD per share option	**2015** Options (thousands)	2014 Average exercise price in HKD per share option	2014 Options (thousands)
At 1 January	**1.76**	**49,115**	1.76	53,640
Granted	**–**	**–**	2.40	1,870
Forfeited	**1.58**	**(5,430)**	1.94	(4,816)
Exercised	**1.85**	**(4,233)**	1.91	(1,579)
Expired	**–**	**(493)**	–	–
At 31 December	**1.80**	**38,959**	1.76	49,115

As at 31 December 2015, out of the 38,959,000 outstanding options (2014: 49,115,000 shares) 28,253,000 options (2014: 31,700,000 shares) were exercisable. 4,233,000 options were exercised in 2015 (2014: 1,579,000 options).

(iv) The share options outstanding at the end of the year has following expiry date and exercise prices

Expiry date	Average Exercise price in HKD per share option as at 31 December 2015	Options (thousands) **2015**	Options (thousands) 2014
2015*	–	**–**	502
2016*	–	**422**	422
2020	1.78	**38,537**	48,191

* Only the outstanding share options under pre-IPO share scheme would be expiring in 2015 or 2016. The average exercise price is zero.

(v) Fair value of options

No share options were granted during 2015. The weighted average fair value of options granted during 2014 determined using the Trinomial valuation model was HKD1.26 per option. The significant inputs into the model were exercise price of HKD2.4, volatility of 61.79%, dividend yield of 0%, an expected option life of 6 years, expected retention rate of the employees at 88%, and an annual risk-free interest rate of 1.597%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last five years. See Note 28 for the total expense recognized in the income statement for share options granted to directors.

Notes to the Consolidated Financial Statements

20 Share-Based Payments *(Continued)*

(b) Restricted Share Award Schemes

On 9 May 2014, the Company adopted a restricted share award scheme as an incentive to 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. The Company appointed O-Net Share Award Plan Limited as the trustee.

Movements in the number of shares held for the Restricted Share Award Schemes and awarded shares for the year ended 31 December 2015 are as follows:

	Number of shares held for the Restricted Share Award Schemes	Number of awarded shares
At 1 January 2015	25,000,000	–
Purchased and withheld (Note 19)	10,119,000	–
Allotted	26,000,000	–
Granted	(25,045,000)	25,045,000
At 31 December 2015	36,074,000	25,045,000

The award shares in the restricted share award scheme ("Award Shares") were divided into 5 tranches on an equal basis as at their grant date. The first tranche can be exercised immediately or after 24 months since the grant date, and the remaining tranches will become exercisable in each subsequent year. The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date, which is to be expensed over the vesting period.

20 Share-Based Payments *(Continued)*

(b) Restricted Share Award Schemes *(Continued)*

Movements of the Award Shares granted to the employees for the year ended 31 December 2015 are as follows:

	Number of Shares (thousand)	Share price HKD	Fair value HKD'000
At 1 January 2015	–	–	–
Award Shares Granted to the employees on 1 July 2015	2,636	2.65	6,985
Including: Award Shares Granted to a director of the Company	–	2.65	–
Award Shares Granted to the employees on 1 October 2015	22,409	1.65	37,116
Including: Award Shares Granted to a director of the Company	–	1.65	–
At 31 December 2015	**25,045**	**1.76**	**44,101**

The amounts of share-based compensation recognized as expenses with a corresponding credit to reserves of the Group.

Notes to the Consolidated Financial Statements

21 Retained Earnings

	HKD'000
At 1 January 2014	412,875
Repurchase and cancellation of shares	(213)
Profit for the year	43,344
At 31 December 2014	456,006
At 1 January 2015	**456,006**
Repurchase and cancellation of shares	**(25)**
Profit for the year	**82,535**
At 31 December 2015	**538,516**

22 Deferred Government Grants

	2015 HKD'000	2014 HKD'000
At 1 January	**14,176**	6,118
Receipt of grant during the year (a)	**5,729**	10,788
Credited to income statement	**(3,362)**	(2,698)
Currency translation difference	**(691)**	(32)
At 31 December	**15,852**	14,176

(a) The amount represented subsidy granted by local government authority in the PRC for financing acquisition of equipment in relation to research and development amounted to RMB4,800,000 (equivalent to HKD5,729,000) in 2015 (2014: HKD10,788,000).

The deferred government grants are amortized to other gains from the point at which the relevant assets are ready for use on a straight-line basis over the assets' useful lives.

23 Trade and Other Payables

	2015 HKD'000	2014 HKD'000
Trade payables (a)	**182,594**	152,067
Bills payable (c)	**95,488**	1,522
Accrued expenses	**13,977**	8,986
Payroll payables	**27,216**	20,213
Other payables	**7,267**	15,496
Amounts due to related parties (Note 36(d))	**1,052**	67
Advance from customers	**3,042**	2,396
Other taxes payable	**10,261**	1,075
	340,897	201,822

At 31 December 2015, the fair value of trade and other payables of the Group approximated their carrying amounts due to their short maturities (2014: same).

(a) The ageing analysis of trade payables based on invoice date is as follows:

	2015 HKD'000	2014 HKD'000
Within 30 days	**95,664**	41,735
31 days to 60 days	**52,799**	50,009
61 days to 180 days	**27,388**	53,862
181 days to 365 days	**2,311**	3,319
Over 365 days	**4,432**	3,142
	182,594	152,067

(b) The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2015 HKD'000	2014 HKD'000
RMB	**248,648**	140,550
USD	**76,281**	55,094
HKD	**5,358**	5,828
EUR	**1,134**	350
CAD	**9,476**	–
	340,897	201,822

Notes to the Consolidated Financial Statements

23 Trade and Other Payables *(Continued)*

(c) Bills payable are with maturity dates between 30 and 180 days. The ageing analysis of bills payable is as follows:

	2015 HKD'000	2014 HKD'000
Within 30 days	**–**	1,522
181 to 365 days	**95,488**	–
	95,488	1,522

On 31 December 2015, the bills payable is secured by pledged bank deposits of HKD4,965,000 and bills receivables of HKD42,959,000 (2014: Nil).

24 Borrowing

	2015 HKD'000	2014 HKD'000
Bank borrowings, unsecured	**74,429**	–

At 31 December 2015, the bank borrowings were all dominated in USD, subjected to an annual average interest rate of 2.98% and repayable within one year (2014: Nil).

The fair value of the borrowings approximated their carrying amount.

25 Deferred Income Tax

The analysis of deferred tax assets and liabilities is as follows:

	2015 HKD'000	2014 HKD'000
Deferred income tax assets:		
– to be recovered within 12 months	**3,872**	5,827
– to be recovered after more than 12 months	**10,271**	109
	14,143	5,936
Deferred income tax liabilities:		
– to be recovered within 12 months	**2,310**	–
– to be recovered after more than 12 months	**1,397**	–
	3,707	–
Deferred tax assets – net	**10,436**	5,936

25 Deferred Income Tax *(Continued)*

The gross movement of the deferred income tax account is as follows:

	2015 HKD'000	2014 HKD'000
Deferred tax assets:		
At 1 January	**5,936**	5,836
Acquisition of a subsidiary	**11,061**	–
(Charged)/Credit to the consolidated income statement (Note 30)	**(6,208)**	116
Translation difference	**(353)**	(16)
At 31 December	**10,436**	5,936

Movement in deferred tax assets is as follows:

	Depreciation and amortization of fixed assets and intangible assets HKD'000	Provision for impairment of receivables and write-down of inventories HKD'000	Deferred government grants HKD'000	Accrued expenses HKD'000	Tax loss HKD'000	Total HKD'000
At 1 January 2014	370	2,300	918	2,248	–	5,836
(Charged)/credited to the consolidated income statement	(252)	(1,036)	1,216	188	–	116
Translation difference	–	(8)	(8)	–	–	(16)
At 31 December 2014	118	1,256	2,126	2,436	–	5,936
At 1 January 2015	**118**	**1,256**	**2,126**	**2,436**	**–**	**5,936**
Acquisition of a subsidiary	**59**	**–**	**–**	**4,567**	**8,495**	**13,121**
Credited/(Charged) to the consolidated income statement	**186**	**270**	**392**	**(2,391)**	**(2,946)**	**(4,489)**
Translation difference	**(14)**	**(85)**	**(140)**	**(31)**	**(155)**	**(425)**
At 31 December 2015	**349**	**1,441**	**2,378**	**4,581**	**5,394**	**14,143**

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related benefit through the future taxable profits is probable. The Group did not recognize deferred income tax assets of HKD17,390,000 (2014: HKD9,849,000) in respect of losses amounting to HKD59,384,000 (2014: HKD33,310,000) that can be carried forward against future taxable income. Losses amounting to HKD6,956,000 (2014: HKD6,956,000), HKD26,355,000 (2014: HKD26,355,000), and HKD26,074,000 (2014: nil) expire in 2018, 2019 and 2020 respectively.

Notes to the Consolidated Financial Statements

25 Deferred Income Tax *(Continued)*

Movement in deferred tax liabilities is as follows:

	Depreciation of fixed assets HKD'000
At 1 January 2015	**–**
Acquisition of a subsidiary	**2,060**
Charged to the consolidated income statement	**1,719**
Translation difference	**(72)**
At 31 December 2015	**3,707**

26 Other Gains – Net

	2015 HKD'000	2014 HKD'000
Government grants (a)	**5,752**	6,865
Rental income	**2,455**	746
Gain on sales of scrapped or surplus raw materials	**1,426**	1,183
Gain on disposal of property, plant and equipment – net	**24**	–
Investment income	**–**	1,269
Fair value loss/expiry of options	**(1,656)**	(742)
Gain on acquisition of a subsidiary (Note 35)	**21,762**	–
Gain on re-measurement of previously held interests in an associate upon acquisition as a subsidiary (Note 35)	**8,997**	–
Others	**(1,865)**	(815)
	36,895	8,506

(a) Included in the government grant are amortization of deferred government grant of HKD3,362,000 (2014: HKD2,698,000), the remaining was mainly cash received from the Finance Committee of Shenzhen Municipality government and was recognized during the year upon receipt.

27 Expenses by Nature

Expenses included in cost of sales, selling and marketing costs, research and development expenses and administrative expenses are analyzed as follows:

	2015 HKD'000	2014 HKD'000
Staff costs – excluding share options granted to directors and employees (Note 28)	**314,887**	229,152
Share options and share award granted to directors and employees (Note 28)	**12,090**	7,543
Raw materials consumed (Note 15)	**531,606**	421,824
Changes in inventories of finished goods and work in progress (Note 15)	**42,807**	4,089
Depreciation (Note 7)	**54,793**	47,678
Amortization (Notes 6, 9)	**5,077**	759
Provision of trade receivable impairment (Note 16(b))	**990**	247
Provision/(Reversal) for inventory write-down (Note 15)	**895**	(7,124)
Sales commissions	**17,310**	12,476
Utilities charges	**37,068**	32,839
Operating lease rental (Note 7(b))	**3,771**	2,966
Freight charges	**8,155**	6,968
Auditors' remuneration	**2,702**	2,584
Professional and consultancy fees	**17,817**	5,489
Travelling expenses	**7,134**	4,651
Advertising costs	**1,191**	955
Other tax levies	**22,680**	11,163
Others	**10,519**	7,616
	1,091,492	791,875

28 Staff Costs

	2015 HKD'000	2014 HKD'000
Salaries, bonus and other welfares	**298,254**	215,216
Pension – defined contribution plans	**16,633**	13,936
Share options granted to directors and employees	**7,546**	7,543
Share award granted to employees	**4,544**	–
	326,977	236,695

Notes to the Consolidated Financial Statements

28 Staff Costs *(Continued)*

Pensions – Defined Contribution Plans

The Group participates in defined contribution retirement benefit plans organized by the local government in the PRC. For the years ended 31 December 2015 and 2014, the Group was required to make monthly defined contributions to these plans based on certain percentage of the basic salary of employees. It is the local government's responsibility to pay the retirement pension to those staff who retired.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of each employee's relevant aggregate income.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the defined contribution payments as disclosed above.

29 Finance Income and Cost

	2015 HKD'000	2014 HKD'000
Finance expense		
– Bank borrowings and other bank charge	**(5,676)**	–
Total finance expenses	**(5,676)**	–
Finance income		
– Interest income derived from bank deposits	**1,393**	5,068
– Exchange gain	**8,055**	3,443
Total finance income	**9,448**	8,511
Net finance income	**3,772**	8,511

30 Income Tax Expenses

	2015 HKD'000	2014 HKD'000
Current income tax		
– Hong Kong profits tax (b)	**(580)**	681
– Canada profits tax (d)	**(2,271)**	–
– PRC enterprise income tax (e)	**1,871**	7,455
Overprovision in prior years	**(2,399)**	–
Total current income tax	**(3,379)**	8,136
Deferred income tax (Note 25)	**6,208**	(116)
Income tax expenses	**2,829**	8,020

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

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

(c) The applicable tax rate for O-net USA is 34%.

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

(e) O-Net Shenzhen applied to the relevant authorities in the PRC and has successfully been granted the qualification as a High and New Technology Enterprise in the PRC. It is entitled to a concessionary enterprise income tax rate of 15% for a period of 3 years from 2014 to 2016. The applicable tax rate for O-net Auto SZ is 25%.

Notes to the Consolidated Financial Statements

30 Income Tax Expenses *(Continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rates applicable to the entities comprising the Group as follows:

	2015 HKD'000	2014 HKD'000
Profit before income tax	**82,078**	51,364
Tax calculated at statutory tax rates applicable to entities comprising the Group	**7,911**	4,404
Tax effect of:		
Research and development costs eligible for additional deduction	**(12,455)**	(5,709)
Utilisation of previously unrecognized tax losses	**–**	(821)
Tax losses of which no deferred income tax asset was recognized	**7,541**	8,110
Income not subject to tax	**(622)**	–
Expenses not deductible for tax purposes		
– Share option expenses	**2,336**	1,473
– Others	**517**	563
Overprovision in prior years	**(2,399)**	–
Income tax expenses	**2,829**	8,020

31 Dividends

The Board does not recommend any final dividend for year ended 31 December 2015 (2014: none).

32 Earnings Per Share

(a) Basic

Basic earnings per share ("EPS") 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.

	2015	2014
Profit attributable to equity holders of the Company (HKD'000)	**82,535**	43,344
Weighted average number of ordinary shares in issue (thousands)	**704,226**	687,295
Basic EPS (HKD per share)	**0.12**	0.06

(b) Diluted

Diluted EPS 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 award granted by the Company (collectively forming the denominator for computing the diluted EPS).

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.

	2015	2014
Profit attributable to equity holders of the Company (HKD'000)	**82,535**	43,344
Weighted average number of ordinary shares in issue (thousands shares)	**704,226**	687,295
Adjustments for share options and share award (thousands shares)	**3,720**	2,686
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	**707,946**	689,981
Diluted EPS (HKD per share)	**0.12**	0.06

Notes to the Consolidated Financial Statements

33 Cash Generated from Operations

Reconciliation from profit before income tax to cash generated from operations:

	2015 HKD'000	2014 HKD'000
Profit before income tax	**82,078**	51,364
Adjustments for:		
Depreciation and amortization (Notes 6, 7, 9)	**59,870**	48,437
Provision/(Reversal) for write-down of inventories (Note 15)	**895**	(7,124)
Impairment provision for doubtful receivables (Note 16)	**990**	247
Gain on disposal of property, plant and equipment	**(24)**	–
Interest income (Note 29)	**(1,393)**	(5,064)
Interest expense (Note 29)	**5,676**	–
Share of loss of investments accounted for using equity method (Note 14)	**2,592**	5,078
Fair value of derivative financial instruments (Note 12)	**1,656**	(527)
Fair value of share options and share award charged to profit or loss (Note 27)	**12,090**	7,543
Gain on acquisition of a subsidiary (Note 26)	**(21,762)**	–
Gain on re-measurement of previously held interests in an associate upon acquisition as a subsidiary (Note 26)	**(8,997)**	–
Changes in working capital:		
– Inventories	**(19,706)**	(26,725)
– Trade and other receivables	**(118,114)**	(143,884)
– Trade and other payables	**137,096**	46,562
– Pledged bank deposits	**(4,139)**	18,778
Cash generated from/(used in) operating activities	**128,808**	(5,315)

Non-cash transactions

During the year ended 31 December 2015, the Group settled an outstanding payable balance of approximately HKD25,155,000 (2014: HKD26,576,000) due to several suppliers by endorsing certain bills receivable by the Group.

34 Commitments

Operating Leases Commitments

The Group leases certain of its office premises, plant and equipment under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases in respect of properties are as follows:

	2015 HKD'000	2014 HKD'000
Not later than one year	**5,095**	2,903
Later than one year	**11,364**	4,940
	16,459	7,843

Capital Commitments

	2015 HKD'000	2014 HKD'000
Capital expenditure contracted for but not provided	**14,475**	47,425

35 Business Combinations

(a) Acquisition of ArtIC

As explained in Note14 (a), ArtIC was previously accounted for as an associate by the Company as at 31 December 2014. On 12 March 2015, ArtIC re-purchased and cancelled 2,888,900 common shares held by one of its shareholders. After the shares cancellation, the Group's ownership interest in ArtIC increased from 38% to 45.7% with no cash consideration paid. However, given the Group had over 50% of voting right in ArtIC after the shares cancellation, and it had control over ArtIC according to the revised shareholders agreement, ArtIC became a subsidiary of the Company on 12 March 2015. The results of operations of ArtIC have been included in the Group's consolidated income statement from that date onwards.

As a result of the acquisition, the Group is expected to increase its presence in markets of telecommunications and the data communications. It also expects to reduce costs through economies of scale.

The following table summarises the consideration identified for ArtIC, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

Notes to the Consolidated Financial Statements

35 Business Combinations *(Continued)*

(a) Acquisition of ArtIC *(Continued)*

Consideration: At 12 March 2015	HKD'000
– Fair value of previously held interests in ArtIC	31,010
Total consideration	**31,010**
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 7)	2,469
Deferred income tax assets	59
Deferred income tax liabilities	(1,689)
Trade and other receivables	583
Pledged bank deposits	735
Cash and cash equivalents	7,013
Intangible assets (Note 9)	6,277
Trade and other payables	(249)
Total identifiable net assets	**15,198**
Non-controlling interest	(8,252)
Goodwill (Note 9)	24,064
	31,010

No acquisition-related costs have been charged to administrative expenses in the consolidated income statement for the year ended 31 December 2015.

Non-controlling interests in ArtIC that are present ownership interests and entitle their holders to a proportionate share of the ArtIC's net assets in the event of liquidation are measured at the present ownership interests' proportionate share in the recognized amounts of ArtIC's identifiable net assets.

The Group recognized a gain of approximately HKD8,997,000 as a result of measuring at fair value its 38% equity interests in ArtIC before the business combination. The gain is included in other income in the Group's income statement for the year ended 31 December 2015. The fair value of the previously held interests in ArtIC was determined by an independent appraisal firm by applying the income approach.

No revenue included in the consolidated income statement since date of acquisition was contributed by ArtIC. ArtIC incurred net loss of HKD6,052,000 since date of acquisition.

Had ArtIC been consolidated from 1 January 2015, the consolidated income statement would show pro-forma loss of HKD6,785,000 (including the net loss of HKD6,052,000 which had been already included in the consolidated income statement).

35 Business Combinations *(Continued)*

(b) Acquisition of ITF

On 30 January 2015, the Group acquired the entire issued share capital of ITF (formerly known as Avensys Inc.) and the sale loan with a cash consideration of USD5,000,000. ITF is a company incorporated in Canada, which is principally engaged in design, manufacture, distribution, and marketing of high reliability optical components and modules as well as fiber bragg gratings (FBGs) for the telecommunications market and high power devices and sub-assemblies for the industrial market.

The acquisition is considered as a bargain purchase as the consideration paid is lower than the fair value of the net assets acquired by the Group, which is mainly because of the Vendor's change in its business strategy.

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

Consideration: **At 30 January 2015**	**HKD'000**
– Cash	38,759
Total consideration	38,759
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 7)	13,327
Intangible assets (Note 9)	10,191
Other non-current assets	135
Deferred income tax assets	13,062
Deferred income tax liabilities	(371)
Inventories	11,280
Other current assets	803
Trade and other receivables	21,648
Cash and cash equivalents	16,336
Trade and other payables	(19,169)
Other current liabilities	(6,346)
Borrowings	(375)
Total identifiable net assets	60,521
Amount credited to consolidated income statement (Note 26)	(21,762)

Notes to the Consolidated Financial Statements

35 Business Combinations *(Continued)*

(b) Acquisition of ITF *(Continued)*

Acquisition-related costs of HKD11,835 have been charged to administrative expenses in the consolidated income statement for the year ended 31 December 2015.

The Group recognized a gain of HKD21,762,000 as a result of bargain purchase of the business combination and recognition of previously unrecognized deferred tax assets amounting to HKD13,062,000. The gain is included in other income in the Group's income statement for the year ended 31 December 2015.

The revenue included in the consolidated income statement since date of acquisition contributed by ITF was HKD126,010,000. ITF also contributed profit of HKD16,838,000 over the same period.

Had ITF been consolidated from 1 January 2015, the consolidated income statement would show pro-forma revenue of HKD134,876,000 and profit of HKD16,563,000.

36 Related Party Transactions

(a) Name and Relationship with Related Parties

Name	Relationship
Butterfly Technology (Shenzhen) Ltd., Co. ("Butterfly")	Controlled by key management personnel of the Company.
O-net WaveTouch Limited	Joint Venture.
Hisense Broadband Multimedia Technologies Co., Ltd. ("Qingdao Hisense")*	The key management personnel of the Company was appointed as one of the directors of the holding company of Qingdao Hisense from 20 July 2012.

The ultimate controlling party of the Group is considered by the directors of the Company to be the Controlling Shareholders.

* The key management personnel of the Company was appointed as one of the directors of the holding company of Qingdao Hisense from 20 July 2012 to 2014. From 2015, Qingdao Hisense was no longer the related party of the Group.

36 Related Party Transactions *(Continued)*

(b) Transactions with Related Parties

The Group had undertaken the following significant transactions with related parties during the years ended 31 December 2015 and 2014:

	2015 HKD'000	2014 HKD'000
Sales of goods		
Butterfly	**2,001**	2,731
Qingdao Hisense	**–**	21,815
	2,001	24,546
Rental income received from a related party		
Butterfly	**1,595**	795

In the opinion of the directors of the Company, the above transactions were conducted in the normal course of business at terms as agreed with the related parties.

(c) Key management includes directors (executive and non-executive), the Company secretary, the president's office, the heads of O-Net Automation and the heads of the research and development department of O-Net Shenzhen and O-Net USA.

The compensation paid or payable to key management for the employee services is shown as below:

	2015 HKD'000	2014 HKD'000
Salaries, bonus and other welfares	**17,398**	17,151
Pension – defined contribution plans	**837**	141
Share option expenses	**5,868**	4,323
	24,103	21,615

Notes to the Consolidated Financial Statements

36 Related Party Transactions *(Continued)*

(d) Balances with Related Parties

In 2015 and 2014, the Group had the following balances with related parties:

	2015 HKD'000	2014 HKD'000
Trade receivables (i)		
Qingdao Hisense	–	3,752
Butterfly	3,406	1,675
	3,406	5,427
Other receivables (i)		
Butterfly	4,343	–
WaveTouch	148	–
	4,491	–
Other payables (i)		
Butterfly	1,052	67

(i) All these current account balances are interest free and unsecured. They have no fixed repayment dates and are receivable/repayable on demand.

37 Balance Sheet and Reserve Movement of the Company

Balance Sheet of the Company

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

	Note	As at 31 December 2015 HKD'000	2014 HKD'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**526,722**	514,632
Current assets			
Trade and other receivables		**382,275**	328,154
Cash and cash equivalents		**828**	11,586
		383,103	339,740
Total assets		**909,825**	854,372
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**7,319**	7,042
Share premium		**807,830**	804,319
Treasury shares		**(74,926)**	(57,859)
Other reserves	(a)	**94,483**	82,960
Retained earnings		**(2,178)**	4,615
Total equity		**832,528**	841,077
LIABILITIES			
Current liabilities			
Trade and other payables		**77,297**	13,295
Total liabilities		**77,297**	13,295
Total equity and liabilities		**909,825**	854,372

The balance sheet of the Company was approved by the Board of Directors on 30 March 2016 and was signed on its behalf.

Na Qinglin
Director

Tam Man Chi
Director

Notes to the Consolidated Financial Statements

37 Balance Sheet and Reserve Movement of the Company *(Continued)*

(a) Reserve movement of the Company

	Capital redemption reserve HKD'000	Share-based Compensation HKD'000	Currency Translation Reserve HKD'000	Total HKD'000
At 1 January 2014	1,092	75,117	(1,090)	75,119
Share option scheme – value of services	–	7,437	–	7,437
Repurchase of shares	213	–	–	213
Currency translation differences	–	–	191	191
At 31 December 2014	1,305	82,554	(899)	82,960
At 1 January 2015	**1,305**	**82,554**	**(899)**	**82,960**
Share option scheme – value of services	**–**	**12,090**	**–**	**12,090**
Currency translation differences	**–**	**–**	**(567)**	**(567)**
At 31 December 2015	**1,305**	**94,644**	**(1,466)**	**94,483**

38 Benefits and Interests of Directors

(a) Directors' Emoluments

The remuneration of each director of the Company for the year ended 31 December 2015 is set out below:

Name of director	Fees HKD'000	Salary HKD'000	Share Options expense HKD'000	Other benefits and allowance HKD'000	Pension Scheme contribution HKD'000	Share Award Scheme expense HKD'000	Total HKD'000
Mr. Na Qinglin (i)	150	2,760	–	150	140	–	3,200
Mr. Chen Zhujiang	–	150	–	–	–	–	150
Mr. Huang Bin	–	150	–	–	–	–	150
Mr. Tam Man Chi	–	150	–	–	–	–	150
Mr. Deng Xinping	300	–	–	–	–	–	300
Mr. Ong Chor Wei	300	–	–	–	–	–	300
Mr. Zhao Wei	300	–	–	–	–	–	300
	1,050	3,210	–	150	140	–	4,550

The remuneration of each director of the Company for the year ended 31 December 2014 is set out below:

Name of director	Fees HKD'000	Salary HKD'000	Share Options expense HKD'000	Other benefits and allowance HKD'000	Pension Scheme contribution HKD'000	Share Award Scheme expense HKD'000	Total HKD'000
Mr. Na Qinglin (i)	–	2,100	–	–	17	–	2,117
Mr. Chen Zhujiang	–	150	–	–	–	–	150
Mr. Huang Bin	–	150	–	–	–	–	150
Mr. Tam Man Chi	–	150	–	–	–	–	150
Mr. Deng Xinping	300	–	68	–	–	–	368
Mr. Ong Chor Wei	300	–	68	–	–	–	368
Mr. Zhao Wei	300	–	207	–	–	–	507
	900	2,550	343	–	17	–	3,810

(i) Mr. Na Qinglin is the Chairman of the Board, as well as the Chief executive of the Group.

Notes to the Consolidated Financial Statements

38 Benefits and Interests of Directors *(Continued)*

(b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group include one director for the year ended 31 December 2015 (2014: one), whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining four (2014: four) individuals are as follows:

	2015 HKD'000	2014 HKD'000
Basic salaries	**9,757**	8,242
Pension costs	**558**	91
Bonus	**1,987**	570
Share option expenses	**1,037**	2,940
	13,339	11,843

Emoluments of the five highest paid individuals paid by the Group fell within the following bands:

	2015	2014
Emolument bands		
HKD1,500,001 – HKD2,000,000	**–**	2
HKD2,000,001 – HKD2,500,000	**3**	2
HKD2,500,001 – HKD3,000,000	**1**	–
HKD3,000,001 – HKD3,500,000	**–**	1
HKD3,500,001 – HKD4,000,000	**1**	–

No emoluments has been paid to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2015 (2014: none).

38 Benefits and Interests of Directors *(Continued)*

(c) Directors' retirement benefits

No retirement benefits were paid to or receivable by directors' services in connection with the management of the affairs of the company or its subsidiary undertaking (2014: Nil).

(d) Directors' termination benefits

No termination on the appointment of director and chief executive of the Company and certain subsidiaries occurred in 2015, thus no related termination benefits was paid.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2014: Nil).

Five-Year Financial Summary

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

CONSOLIDATED INFORMATION

For the year ended 31 December

	2015 HKD'000	2014 HKD'000	2013 HKD'000	2012 HKD'000	2011 HKD'000
Profitability and operating data					
Turnover	**1,135,495**	831,280	661,502	727,368	669,381
Gross profit	**362,557**	288,949	211,778	300,439	299,836
Selling and marketing costs	**49,450**	36,386	30,319	37,141	35,275
Research and development expenses	**135,080**	105,952	88,979	73,137	50,854
Administrative expenses	**134,024**	107,206	98,129	93,555	90,241
Profit before income tax	**85,364**	51,364	15,039	114,128	154,195
Profit for the year	**79,249**	43,344	13,375	97,810	133,449
Profit attributable to equity holders of the Company	**82,535**	43,344	13,375	97,810	133,449
Profitability ratios					
Gross profit margin	**32.9%**	34.8%	32.0%	41.3%	44.8%
Profit before tax margin	**7.5%**	6.2%	2.3%	15.7%	23.0%
Profit margin	**6.98%**	5.2%	2.0%	13.4%	19.9%
Profit* margin	**7.3%**	5.2%	2.0%	13.4%	19.9%
Operating ratios (as a percentage of revenue)					
Selling and marketing costs	**4.4%**	4.4%	4.6%	5.1%	5.3%
Research and development expenses	**11.9%**	12.7%	13.5%	10.1%	7.6%
Administrative expenses	**11.8%**	12.9%	14.8%	12.8%	13.5%

As at 31 December

	2015 HKD'000	2014 HKD'000	2013 HKD'000	2012 HKD'000	2011 HKD'000
Assets and liabilities data					
Non-current assets	**858,707**	766,374	643,062	492,449	274,151
Current assets	**914,258**	780,786	940,059	1,096,170	1,295,569
Non-current liabilities	**15,852**	14,176	6,118	–	–
Current liabilities	**422,284**	211,504	202,945	199,948	199,826
Equity	**1,334,829**	1,321,480	1,374,058	1,388,671	1,369,894

* Profit means Profit attributable to Equity Holders of the Company