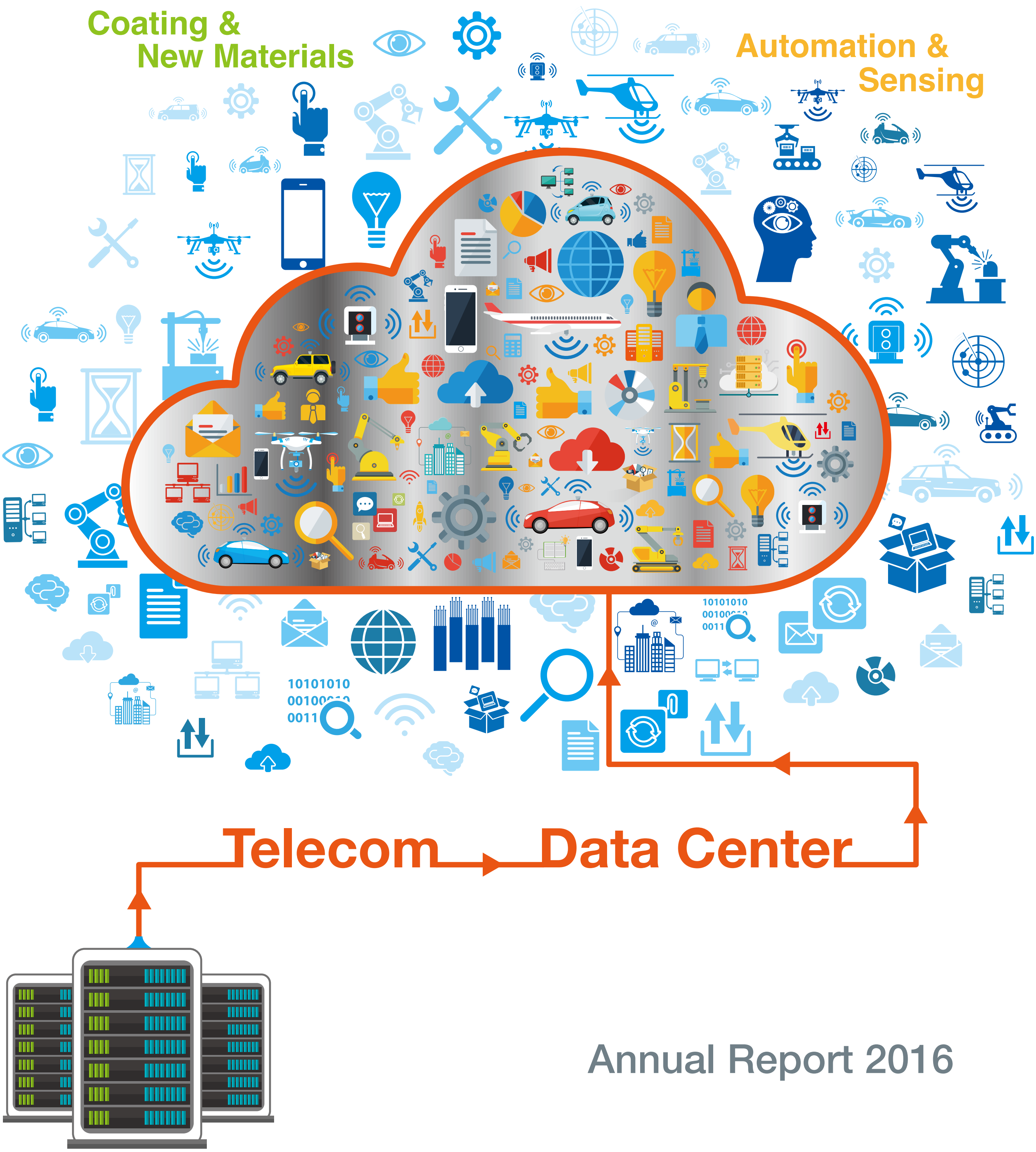
O-Net

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 2016

Turnover increased

40.8%

to HKD1.6 billion

Corporate Profile

O-Net Technologies (Group) Limited, with headquarters in Shenzhen, is a leading supplier of optical networking products to optical telecommunication and data-communication markets worldwide. Building on its core optical networking technology platform, the Group has diversified its business to include certain new businesses such as automation and sensing, coating and LiDAR, transforming itself strategically from solely a passive telecom component supplier into a leading provider of high-tech products and solutions. It aspires to become a leading high-tech company.

The Group has presence around the world including in mainland China, USA, Canada, France and Germany and employs about 3,700-strong staff.

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

Gross profit increased by **57.1%** to HKD569.7 million

Profit attributable to equity holders increased by **58.2%** to HKD130.6 million

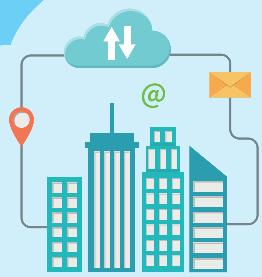
Profit margin increased by **0.9ppt** to 8.17%

Operational Performance

1. Launched of raman amplifiers, linecard, 100GbE tunable filer and variable optical attenuator ("VOA") and continued to gain market share in telecommunication market
2. Tapped into fast growing data-communication market through qualification of 40GbE Active Optical Cable ("AOC")
3. Introduced new iterations of 100GbE products — 100GbE AOC and 10X10 TOSA & ROSA
4. Automation and Sensing business started to bear fruit, with machine vision business experienced impressive growth
5. Established a production line for the assembly of LiDAR while the optical products for LiDAR had commenced shipment and generated revenue in the second half of 2016

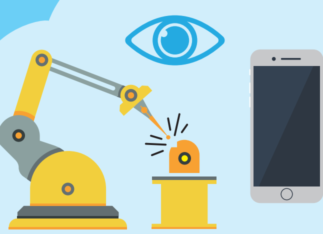
CONTENT

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.



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

Headquarter 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 *(Chairman of the Board and Chief Executive Officer)*

Non-Executive Directors

Mr. Tam Man Chi
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 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 & Sterling

Auditor

PricewaterhouseCoopers

Property Valuer

Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Valuer

ValQuest Advisory Group Limited

Principal Bankers

China

Bank of China
China Merchants Bank
Bank of Hangzhou

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

743,795,240 shares (as at this report approval date)

Board Lot Size

1,000 shares

Cayman Islands Share Registrar

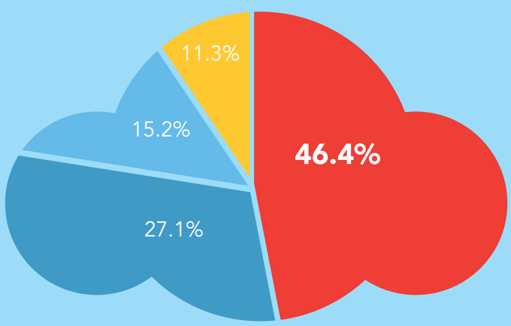
Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Hong Kong Share Registrar

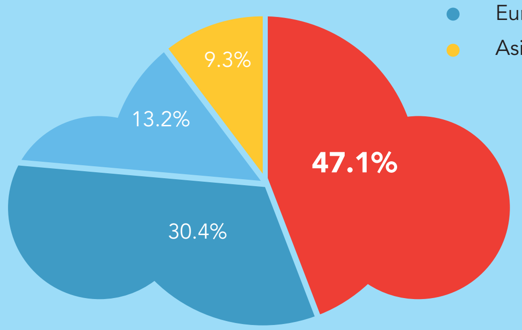
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Financial Highlights

2016 Revenue by Geographical Segment

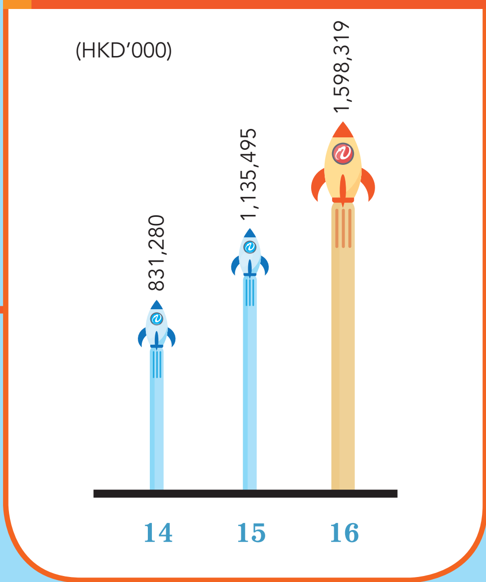


2015 Revenue by Geographical Segment

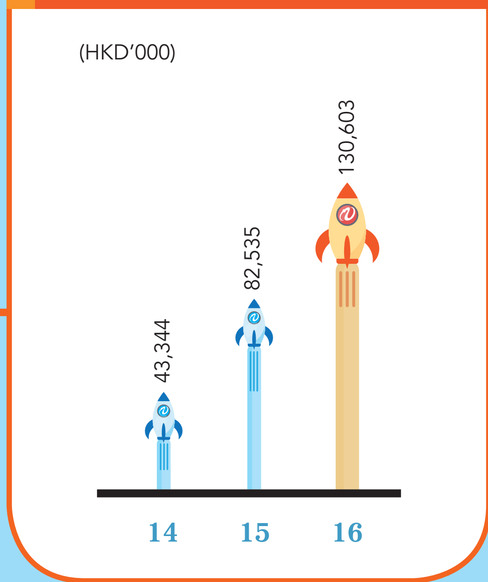


- PRC
- North and South America
- Europe
- Asia (ex PRC)

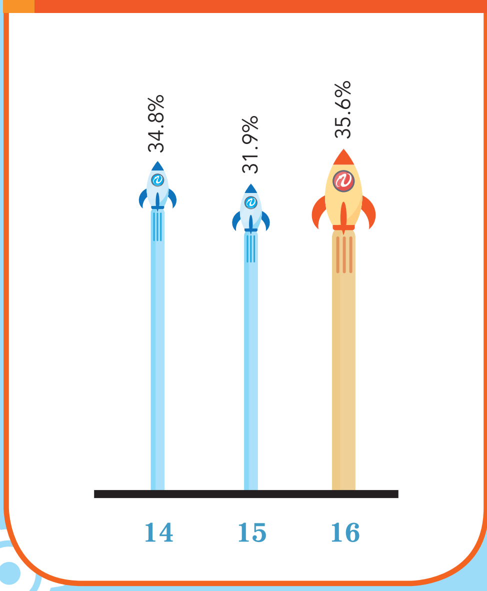
Revenue



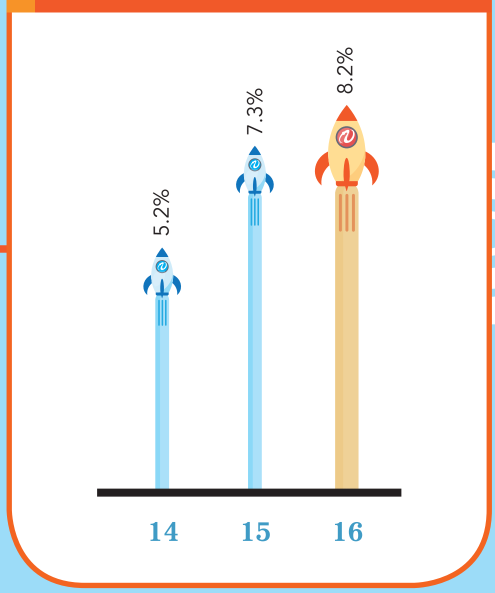
Profit Attributable to Equity Holders of the Company



Gross Profit Margin

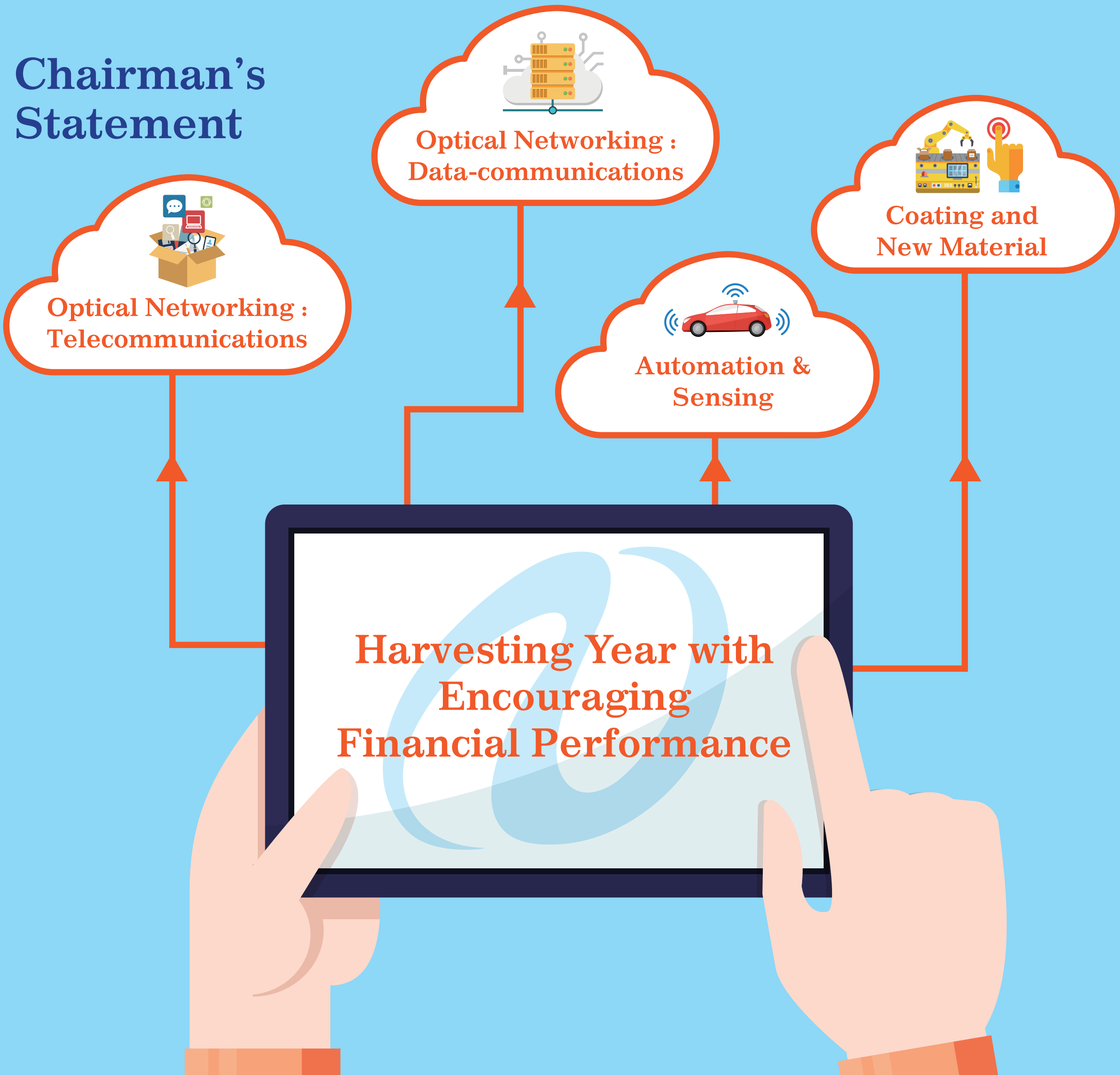


Profit* Margin



* Profit means profit attributable to equity holders of the Company

Chairman's Statement



Core Business – major revenue contributor

- High demand in passive & active optical networking products
- High growth in global telecommunications and data-communications markets
- Gain further market share, new customers in telecommunications market and new revenue sources for data-communications market

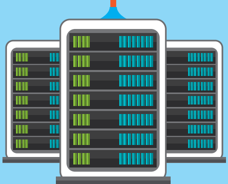
Increasing contribution from new business

- Automation and sensing business including cutting-edge machine vision system and fiber sensor, automation solutions for e-cigarette business, industrial laser business and LiDAR business
- Advanced optical coating technology for consumer electronic market

Focus on the future

- Launch of high-growth next generation products
- Continuing growth and gain market share in telecom business
- Through established world-class data-com technology capabilities in Silicon Valley to enjoy phenomenal growth in data-communications market
- Develop and launch next generation LiDAR components and solutions for ADAS market

“The exemplary results of the Group in FY2016 tell us that our ‘Diversify for Growth’ strategy has been effective. While our core telecom business continued to perform outstandingly data-communications business is serving us as a new catalyst of advancement. The success of our diversification strategy is also evidenced in the encouraging development of our automation and sensing businesses, as well as coating business, highlighted the effectiveness which have started to deliver returns, presenting a solid platform to the Group for achieving long-term sustainable growth.”



Na Qinglin
Chairman and
Chief Executive Officer

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, 2016 (“FY2016”).

Overall Performance

The “Diversify for Growth” strategy that we have embraced and implementing over the past several years has begun to bear fruit. In FY2016, our performance was propelled on the back of successes made from all of our businesses, both traditional and new growth drivers, leading to overall revenue and non-GAAP net profit of over 40% and 126% to HKD1,598.3 million and HKD162.0 million respectively.

Business Review

The global telecommunications market experienced strong growth, with a double-digit traffic volume increase as industry players direct their investments towards bolstering the full spectrum of network infrastructure, including long haul, metro, fixed access and mobile networks. Being a prominent member of the optical networking industry with strong local and global presence, the Group has performed highly favorably in the telecommunications markets and successfully captured greater market share.

In addition, the Group has extended its optical networking business presence to tap the data-communications market which has started to bear fruits last year and is expected to serve as the catalyst for the Group’s advancement. In the recent years, there has been rising demand for web-scale data centers, as well as waves of upgrades in order to meet the rollout of 100GbE for addressing higher speed cloud services. Through the launch of next generation products, including 100GbE Active Optical Cable (“AOC”) and 10X10 TOSA & ROSA that have been qualified by customers, I believe the Group’s data-communications optical networking business will further expand as one of the core businesses of the Group.

On the other hand, our automation and sensing business has made clear strides as well. In the past year, we provided various automation solutions to members of the electronic cigarettes manufacturing industry, as well as machine vision system and fiber sensing products to the smart manufacturing industry, the latter representing our newest growth driver.

Chairman's Statement

Still another encouraging development is our coating services business. Having leveraged our optical coating and processing technology platform, an anti-reflective and anti-fingerprint coating machine was developed and launched in 2014 so as to tap into the consumer electronic market. This technology has delivered outstanding returns attributable to the strong demand from a leading Chinese smartphone brand.

Results Highlights

The Group has performed exceptionally during the latest financial year owing to the hard work and commitment demonstrated by the entire O-Net workforce. As at FY2016, the Group recorded revenue of HKD1,598.3 million, a significant increase of 40.8% over the preceding year. Other outstanding metrics include rises in gross profit and profit attributable to equity holders of the Company of 57.1% and 58.2% to HKD569.7 million and HKD130.6 million respectively.

Dividend

The Board does not recommend any final dividend for FY2016 at the upcoming Annual General Meeting of the Company.

Prospects

With data centers continuing to make the transition from the 40GbE to 100GbE standard to cater for higher speed cloud services, associated data communications products will enjoy strong demand. To continue capitalizing on this trend, we will continue to develop and launch next-generation 100GbE products that enable the Group to gain a greater share in the data-communications market. Besides organic growth, we believe the acquisition of 3SP Technologies will be completed in the first half of 2017 which will enable us to leverage their expertise in Indium Phosphide ("InP") and Gallium Arsenide ("GaAs") based laser chips to accelerate our penetration into the aforesaid market.

While the demands for greater bandwidth and high-speed connectivity will support the growth of our optical networking business, Industry 4.0 and the "Made in China 2025" initiative will be underpinning the development of our automation and sensing businesses. With the creation of "smart factories" in the coming years, we will be launching cutting-edge machine vision systems and fiber sensing products in response. Yet another exciting development to emerge from the "Diversify for Growth" strategy is our involvement technologies for LiDAR, which also demonstrates our farsighted approach towards technology business development. Qualified by a global leading player, our LiDAR components commenced shipment in the second half of 2016 and will be spearheading the Group's penetration into the autonomous vehicle market. To expedite our growth, we started to secure more new customers, and will continue to direct our energies and resources to develop cost-effective solutions for the ADAS industry.

Moreover, we are equally optimistic about the development of our coating and new materials business. Indicative of this optimism, we established O-Net Coating and Materials Technology Limited, a focus subsidiary to secure more customers and seize greater business opportunities.

Appreciation

At this time I would like to extend my appreciation to our shareholders for their unwavering trust and commitment to O-Net. I wish to also offer my gratitude to our business partners and customers, all of whom have been pivotal to the development of the Group and its ability to achieve outstanding growth in the past year. Lastly, I wish to applaud our staff from every level for their perseverance and dedication to the advancement of O-Net.

Na Qinglin
Chairman and
Chief Executive Officer

March 14, 2017

Management Discussion and Analysis

During the past financial year, the Group has continued to bolster its position as a leader in the provision of high-technology products and solutions, thus further expanded from its origin as supplier of passive optical networking products. In addition to launching high-speed optical transceivers for addressing the needs of both intra- and inter-datacenter connections, it has also made significant strides in other fast-growth emerging segments such as laser chips for pump lasers and high-speed optical transceivers, as well as laser chip and optical components for Light Detection And Ranging ("LiDAR") technologies.

The "Diversity for Growth" strategy rolled out by the management back in 2012 has been the catalyst for growth of various new businesses. This strategy has led to (i) the introduction of automation solutions for E-cigarette industry; (ii) the launch of the first machine vision solution and fiber sensor in the second half of 2015; (iii) the offering of advanced industrial laser products by ITF Technologies, a subsidiary of the Group; and (iv) the rollout of an innovative coating technology to the smartphone segment of the consumer electronics industry. All of these products and services have performed exceptionally well in the past year, hence laying the groundwork for further penetration into the Industry 4.0 market.

Apart from the optical networking market for telecommunications applications, the Group's traditional core business, the Group will continue to direct focus on other segments, including: (i) cloud data center infrastructure; (ii) numerous automation related businesses to capture Industry 4.0 and robotics opportunities; (iii) fiber lasers; (iv) LiDAR for emerging Advanced Driver Assistance Systems ("ADAS") applications; and (v) coating and new materials using for consumer electronics market. Consistent with this focus, and its overall goal to further distance itself as leader in the global technology industry, it will continue to seek for opportunities for acquisitions to generate synergies with core and new businesses. Already, the Group is in the process of acquiring 3SP Technologies, a specialist in Indium Phosphide ("InP") and Gallium Arsenide ("GaAs") based laser chips, which would complement its products for the optical telecommunications and data-communications markets, as well as emerging markets such as ADAS.

Industry and Business Review

Optical Networking Business

In 2016, the Group's optical components business has duly seized opportunities resulting from both the telecommunications and data-communications segments, and generated revenue of HKD1,397.5 million, up 43.4% year-on-year. It's thereby far outstripping the pace of expected global optical market growth of 23%, which is the result of business expansion in both the telecommunications and data-communications markets.

Telecommunications Business

The global optical components market for telecommunications application has experienced steady growth over the past year which was driven by the strong demand for 100GbE and 200GbE coherent transmission products to support rising bandwidth demand for mobile and access networks. Riding on the impressive advancement in both overseas and domestic markets, the Group's telecommunications business recorded a favourable year-on-year growth of 36.6% and generated HKD1,307.4 million in revenue, remained the principal revenue contributor and accounted for 93.6% of the segment and 81.8% of total revenue of the Group in the latest financial year.

Data-communications Business

On the other hand, data-communications growth has been spurred by the uprating of data centers by global web-scale operators from 40GbE to 100GbE due to demand for higher speed cloud services, and thus data-communications market is expected to achieve impressive growth too, with compound annual growth rates ("CAGR") of 19% from 2015 to 2021, and reaching USD6.1 billion in value by the end of 2021.

Though the Group's data-communications business accounted for 6.5% of optical networking business revenue at HKD90.1 million — representing 5.7% of the Group's total revenue — it nonetheless outpaced the telecommunications business in terms of revenue growth. In 2015, the data-communications business generated revenue of HKD17.7 million, hence a phenomenal year-on-year increase of 409.0% has been achieved within 12 months.

Optical Networking Business

Telecommunications segment

- Strong demand for 100GbE and 200GbE coherent transmission products
- Higher data rates in supporting rising bandwidth demand for mobile and access network in China
- New product launch including ICR and mini ICR for 100GbE coherent will drive revenue growth

Data-communications segment

- Global web-scale operators to upgrade their data centers from 40GbE to 100GbE
- Launched and qualified the 100GbE AOC and 10X10 TOSA & ROSA products in 2H2016

Automation and Sensing Businesses

The Group's advanced technological platforms enable it to deliver products and services to customers from different industries, including members engaged in (i) the machine vision business; (ii) the automation solutions for E-cigarette business; (iii) the industrial laser business; and (iv) the LiDAR business.

Management Discussion and Analysis

Automation and Sensing Businesses

Machine vision business

- Continue to roll out a series of machine vision systems and sensors to cater to "Made in China 2025" demand

E-cigarette business

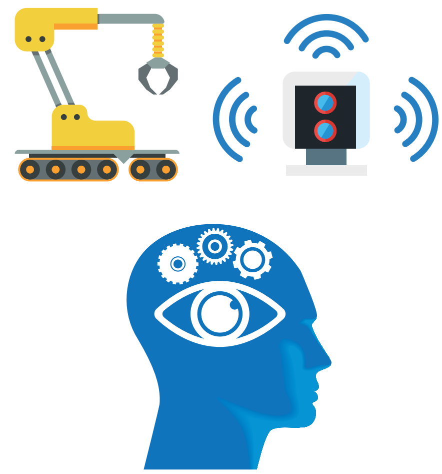
- O-Net provides automation solutions to e-cigarette makers and has close relationship with major e-cigarette manufactures in China, hence the business is expected to grow alongside the market

Industrial Laser business

- To tap the growth potential of multi-kilowatt fiber lasers, which is gaining popularity, the Group acquired ITF Technologies and became a leading supplier of ultra-reliable fiber-optic components, such as Fiber Bragg Grating (FBG) and high-power fused components and modules for fiber laser systems

LiDAR business

- Established a production line for the assembly of LiDAR, and the optical components for LiDAR have been qualified by a global technology giant and generated revenue in 2H2016



Machine vision business

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

In FY2015, the Group rolled out its first machine vision system and fiber sensor, and in the past year has continued to invest and expand product portfolios to cater for strong demand. Consequently, the machine vision system and fiber sensor segment achieved impressive growth of 515.4% year-on-year, contributing HKD16.0 million in revenue to the automation and sensing business in FY2016, thus reaffirming its growth driver status.

Automation solutions for E-cigarette business

During the year, the Group continued to provide various automation solutions for the E-cigarette manufacturing industry and have become a leading supplier of the E-cigarette industry by supplying heating coils and automated E-liquid Filling & Assembly Machines.

Capitalizing on the Group's longstanding relationships with several major E-cigarette makers in China, its E-cigarette business grew slightly better than E-cigarette market and recorded revenue of HKD46.9 million for the year.

Industrial laser business

Laser technology has been deployed for industrial applications since the invention of the first lasers back in the 1960's. Since 2006, ITF Technologies has been involved in several applications for industrial fiber lasers that cover different power and wavelength spectrums, including macro/micro material processing, and marking and engraving, as well as sensor applications such as LiDAR for telemetry applications. While the global manufacturing outlook for 2017 is improving, the industrial laser industry is expected to maintain a growth rate of approximately 6%. This uptick will continue to be led by fiber laser sales, which are expected to grow by 9.1% annually and will account for a greater share of the industrial laser applications market. Fiber laser sales growth will be driven by (i) power efficiency; (ii) cost competitiveness; (iii) ease of maintenance; and (iv) relative durability.

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

In 2016, ITF Technologies expanded its offerings to multi-kilowatt fiber lasers and LiDAR applications. As a result, the Group has benefited from growing revenue sources, as reflected by total revenue of HKD74.5 million for the industrial laser business in FY2016. The result represents a growth rate of 22.9% over the preceding year, and also outperforms the market's growth rate of 6% for 2016.

LiDAR business

The Group is also a pioneer in LiDAR, which is among the key solutions for making high-resolution images or maps used by Advanced Driving Assistance Systems ("ADAS"). By 2020, the LiDAR market will be valued at USD1 billion according to estimates, having achieved a CAGR of 16% from 2014 to 2020. This significant growth will be driven by the rise in automated and highly automated vehicles on the road in ten years' time. To capitalize on such growth, the Group has established a production line for the assembly of LiDAR, and its optical products for LiDAR, which have also been qualified by a global technology giant, commenced shipment and generated revenue in the second half of 2016. Furthermore, it is pursuing cooperative ties with other LiDAR players and securing additional customers. All of these efforts will help to further bolster the Group's position in this burgeoning segment.

Coating and New Materials Business

Based on market data from three major smartphone manufacturers in China, smartphone shipments to the country and globally rose by 14.2% and 5.9% respectively in 2016. Furthermore, according to projections by MediaTek Inc., overall smartphone shipments around the globe will increase by 5.4%, while emerging markets including China will reach as high as 14% to 16%. This underscores the enormous growth potential of the smartphone market, particularly in China, which is a major market of the Group's coating and new materials business. Capitalizing on the Group's cutting edge coating technology, it provided anti-reflective, anti-fingerprint and color limination coating services, and enjoyed strong demand from the smartphone market, as evidenced by significant revenue growth, rising from HKD13.1 million in the first half of 2016 to HKD50.3 million in second half year of 2016.

Management Discussion and Analysis

Coating and New Materials Business

- Supported by the Group's advanced optical coating and processing technology platform, continue to capture the strong demand of the smartphone market

- Cutting edge anti-fingerprint coating technology adopted in ceramic fingerprint sensor and ceramic casing, and colour lamination technology applied on glass casing

Financial Review

Revenue

For FY2016, the Group reported revenue of HKD1,598.3 million, representing an increase of HKD462.8 million, or 40.8%, compared to that of HKD1,135.5 million in FY2015. The increase in revenue in FY2016 was primarily attributable to (i) the strong growth in the revenue of the optical networking business for the telecommunications and data communications markets; and (ii) the persistent expansion of the new businesses.

Optical Networking Business

Revenue of the optical networking business of HKD1,397.5 million was recorded in FY2016, representing an increase of 43.4% as compared to that of HKD974.7 million in FY2015. The increase in revenue in FY2016 was primarily attributable to (i) the demand of the passive optical networking products remaining at a high level; (ii) the launch of new products such as raman amplifiers, linecard, 100GbE tunable filer and variable optical attenuator ("VOA") during the year; (iii) gaining further market share and new customers in both overseas and domestic markets; and (iv) the new revenue sources generated by sales of active optical networking products for data communications market to US based customers.

The revenue of the optical networking business from the overseas market increased by 37.5% to HKD806.8 million for FY2016, representing 57.7% of its total optical networking revenue, which was attributable to the combined effect of (i) the demand of the passive optical networking products remaining at a high level due to the upgrading of 100GbE long haul networks; (ii) gaining further market share and new customers in overseas markets, particularly in United State of America ("USA") and Asia Pacific excluded China; and (iii) sales of active optical networking products for data-communications market to US based customers.

The revenue of optical networking business from the domestic market surged by 52.3% to HKD590.7 million for FY2016, representing 42.3% of its total optical networking revenue. The surge was attributable to the combined effect of (i) gaining further market share domestically; and (ii) the demand of the passive optical networking products remaining at a high level as a results of continuing in extension of mobile and fixed access networks as well as the metro and long haul networks require an upgrade to support the mobile and fixed access networks in China.

Automation and Sensing Businesses

Revenue of the automation and sensing businesses of HKD137.4 million was recorded in FY2016, representing an increase of 27.2% as compared to that of HKD108.0 million in FY2015, attributed to the steady growth of machine vision, automation solutions for E-cigarette and the industrial laser business.

Machine vision business

The Group entered into the machine vision industry by the introduction of a machine vision system and a fiber sensor in China which generated HKD16.0 million in revenue, representing an increase of 515.4% as compared to that of HKD2.6 million in FY2015.

Automation solutions for E-cigarette business

Revenue of HKD46.9 million was recorded for FY2016, representing an increase of 12.5% as compared to that of HKD41.7 million for FY2015. The increase in revenue for FY2016 was primarily attributable to the steady growth in demand of both heating coils and cartomizers as the Group had established a healthy supply relationships with several major E-cigarette makers in China.

Industrial laser business

The Group's industrial laser business was solely contributed by the ITF by supplying optical components to the fiber lasers products for material processing applications in industrial countries, especially China. In FY2016, revenue from the industrial laser business of HKD74.5 million was recorded, representing an increase of 22.9% as compared to that of HKD60.6 million for FY2015. The increase was primarily due to increasing demands from customers in China.

Coating and New Materials Business

In FY2016, the Group had generated HKD63.4 million revenue from the coating business, representing an increase of 20.1% as compared to that of HKD52.8 million for FY2015. This was primarily because of increasing demand for coating on glass and ceramic materials for consumer electronics products such as smartphone in China.

Gross Profit and Gross Profit Margin

Gross profit for FY2016 was HKD569.7 million, representing an increase of HKD207.1 million, or 57.1%, from the gross profit of HKD362.6 million for FY2015. The increase of gross profit was primarily due to (i) the overall increase in revenue from the operation of the Group particularly from the revenue of optical networking business; and (ii) increase in gross profit margin.

Gross profit as a percentage of total revenue, or gross profit margin, increased to 35.6% for FY2016 as compared to 31.9% for FY2015. The gross profit margin of optical networking business increased to 33.1% for FY2016, as compared to 32.2% for FY2015 while the gross profit margin of automation and sensing businesses, increased significantly to 46.6% for FY2016, as compared to 42.9% for FY2015. This accounted for the overall improvement of Group gross profit margin.

Other Gains

Other gains for FY2016 decreased by HKD15.7 million to HKD21.2 million, from HKD36.9 million for FY2015. This was primarily due to the net effect of (i) increase in recognition of government grant, from HKD5.8 million to HKD13.3 million in 2016; (ii) absence of the gain on acquisition of ITF of HKD21.8 million in 2015; and (iii) absence of the gain on re-measurement of previously held interests in an associate upon acquisition.

Management Discussion and Analysis

Selling and Marketing Costs

Selling and marketing costs of HKD63.4 million for FY2016 represents an increase of HKD13.9 million, or 28.1%, compared to HKD49.5 million for FY2015. The increase in selling and marketing costs for FY2016 was primarily attributable to (i) the increase of the salary costs and commissions; (ii) higher freight charges; and (iii) the increase in share options/share award expenses. However, selling and marketing costs as a percentage of revenue decreased to 4.0% for FY2016 as compared to 4.4% for FY2015. The reason was mainly attributable to the higher revenue outweighing the increase in the overall selling and marketing costs.

Salary cost and commission for FY2016 was HKD42.0 million which represents an increase of HKD11.1 million, or 35.9% compared with HKD30.9 million for FY2015. 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; (ii) an increment in salaries; and (iii) increase in commission due to the surge of sales in 2016.

Freight charges for FY2016 was HKD9.6 million which represents an increase of HKD3.0 million, or 45.5% compared with HKD6.6 million for FY2015. This increase rose in step with the rising sales in 2016.

Share options/share awards expenses for FY2016 was HKD1.8 million, representing an increase of HKD1.1 million, compared with HKD0.7 million for FY2015. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in 2016 and those granted in the second half of 2015, which didn't have a full year impact in 2015.

Research and Development Expenses

Research and development ("R&D") expenses for FY2016 were HKD187.8 million, which was 39.0% higher compared to HKD135.1 million for FY2015. The rise in R&D expenses was mainly due to the combined effect of (i) the increase in salary cost for the R&D engineers; (ii) the increase in share options/share awards expense; and (iii) the increase in raw materials consumed in R&D projects. However, R&D expenses as a percentage of revenues slightly decreased to 11.7% for FY2016, as compared to 11.9% for FY2015. This was mainly due to the increase in revenue outweighing the increase in the overall R&D expenses.

For FY2016, the salary cost for the R&D engineers was HKD94.2 million, representing an increase of HKD24.1 million, or 34.4% as compared to HKD70.1 million for FY2015. 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 salaries.

Share options/share awards expenses for FY2016 was HKD6.5 million, representing an increase of HKD3.6 million, compared with HKD2.9 million for FY2015. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in 2016 and those granted in the second half of 2015, which didn't have a full year impact in 2015.

Raw materials consumed in the R&D projects in FY2016 was HKD60.0 million, representing an increase of HKD20.5 million, compared with HKD39.5 million for FY2015. The increase was primarily attributable to increasing investments in R&D projects, such as developing 100GbE mini ICR and 10 X 10 TOSA & ROSA.

Administrative Expenses

Administrative expenses for FY2016 were HKD177.5 million, which was 32.5% higher, compared to HKD134.0 million for FY2015. The increase in administrative expenses for FY2016 was primarily attributable to (i) the increase in staff salary and staff welfare; (ii) the impairment loss of inventories and capitalized expenditure of development costs (to R&D) and (iii) increase in overall administrative expenses. However, administrative expenses as a percentage of revenues decreased to 11.1% for FY2016 as compared to 11.8% for FY2015. The decrease was mainly due to the increase in revenue outweighing the increase in administrative expenses.

For FY2016, the salary cost was HKD98.8 million, representing an increase of HKD14.6 million, or 17.3% as compared to HKD84.2 million for FY2015. The increase was primarily attributable to an increment in salaries.

The total impairment cost of inventories was HKD11.8 million for FY2016, representing an increase of HKD10.9 million, as compared to HKD0.9 million of FY2015. The Group assessed the future economic benefits of these assets and decided to make the impairment.

The other administrative expenses rose in line with growth of the Group such as office supplies, utilities, rent and legal & professional fees which increased by HKD9.2 million in total, represented an increase of 34.9%.

Finance Income

Finance income for FY2016 amounted to HKD9.2 million, representing a decrease of HKD0.2 million, compared to HKD9.4 million for FY2015. The decrease in finance income was primarily due to the net effect of (i) the decrease in foreign exchange gain by HKD2.8 million to HKD5.3 million as the depreciation of Renminbi Yuan ("RMB") for FY2016 while most of cash held by the Group was in RMB; and (ii) the increase in interest income by HKD2.5 million due to increasing pledged bank deposits and term deposits.

Finance Expense

Finance expense for FY2016 amounted to HKD15.6 million. The increase in finance expense was primarily due to the increase in interest expenses due to increase in bank borrowings by HKD639.0 million during the year.

Share of Result of a Joint Venture

Share of loss of a joint venture ("JV") was HKD1.5 million for FY2016, which represents a decrease of HKD0.6 million compared with HK2.1 million loss for FY2015. The decrease of the Group's share of loss of a JV was primarily attributable to the decrease in operating expense of the JV.

Profit before Tax and Profit before Tax Margin

Profit before tax of HKD154.4 million was recorded for FY2016 while HKD82.1 million was recorded for FY2015. The increase in profit before tax for FY2016 was primarily due to an increase in revenue from the operation and improvement in overall gross profit margin of the Group.

Profit before tax as a percentage of total revenues, namely profit before tax margin, increased from 7.2% for FY2015 to 9.7% for FY2016. The increase in profit before tax margin was primarily due to (i) the increase in gross profit margin as described above; and (ii) the decrease in respective selling expenses, R&D expenses and administrative expenses as percentages of the Group's revenue.

Management Discussion and Analysis

Income Tax Expenses

Currently, apart from income tax expense of O-Net USA and ITF Technologies, income tax expenses of the Group mainly consist of PRC Enterprise Income Tax ("PRC EIT") and deferred taxation. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

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 FY2016 amounted to HKD25.6 million represents an increase of HKD22.8 million or 814.3% from the income tax expense of HKD2.8 million for FY2015. The increase in income tax expenses was primarily due to the net effect of (i) increase in net profit before tax for FY2016; and (ii) provision of taxation for overseas subsidiaries due to recording taxable profit.

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

Profit attributable to equity holders of HKD130.6 million was recorded for FY2016, while HKD82.5 million was recorded for FY2015. The increase in profit attributable to equity holders was primarily due to increase in revenue from the operation and improvement in overall gross margin of the Group as disclosed above.

Profit attributable to equity holders as a percentage of total revenue, namely profit margin, increased from 7.3% for FY2015 to 8.2% for FY2016. The increase in profit margin was primarily due to (i) the increase in gross profit margin as described above; and (ii) the decrease in the respective selling expenses, R&D expenses and administrative expenses as percentages of the Group's revenue.

Non-Gaap Financial Performance

Non-GAAP Profit Analysis

Reconciliation of Non-GAAP Financial Measures

The Group believes that providing non-GAAP financial measures is helpful to investors that compare our financial performance with most of the comparable companies listed on NASDAQ in the U.S.A., which also provides non-GAAP financial measures. Generally, these non-GAAP financial measures are a numerical measure of 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.

	Year ended 31 December	
	2016	2015
	HKD'000	HKD'000
Adjustment to Measure Non-GAAP Gross Profit		
Gross Profit	**569,685**	362,557
Adjustment Related to Cost of Sales		
Provision for inventory write-down	**11,796**	895
Non-GAAP Gross Profit	**581,481**	363,452
Adjustment to Measure Non-GAAP Net Profit*		
Net Profit*	**130,603**	82,535
Adjustment Related to Cost of Sales		
Provision for inventory write-down	**11,796**	895
Adjustments to Measure to Operating expenses		
Share Options and Share Awards Granted to Directors and Employees	**17,082**	12,090
Amortization of intangible assets	**5,539**	5,077
Adjustments to Other Gains — net		
Fair value Loss on Derivative Financial Instruments	**–**	1,656
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)
Gain on disposal of investments accounted for using equity method	**(4,205)**	–
Loss on disposal of call option in equity investment	**1,225**	–
Non-GAAP Net Profit*	**162,040**	71,494
Non-GAAP EPS		
— Basic	**0.23**	0.10
— Diluted	**0.22**	0.10
Gross Profit Margin	**35.6%**	31.9%
Non-GAAP Gross Profit Margin	**36.4%**	32.0%
Net Profit* Margin	**8.2%**	7.3%
Non-GAAP Net Profit* Margin	**10.1%**	6.3%

* Net Profit means profit attributable to owners of the Company.

Management Discussion and Analysis

Non-GAAP net profit for FY2016 was HKD162.0 million, or HKD0.23 per share, compared to non-GAAP net profit of HKD71.5 million, or HKD0.10 per share, reported for FY2015. Non-GAAP results for FY2016 exclude HKD11.8 million in provision for inventory write-down, HKD17.1 million in share options and share awards granted to directors and employees, HKD5.5 million in amortization of intangible assets, HKD4.2 million in gain on disposal of investments accounted for using equity method and HKD1.2 million in loss on disposal of call option in equity investment. Non-GAAP results for FY2015 exclude HKD0.9 million in provision for inventory write-down, HKD12.1 million in share options and share awards granted to directors and employees, HKD5.1 million in amortization of intangible assets and HKD1.7 million in fair value loss on derivative financial instruments, HKD21.8 million in gain on acquisition of a subsidiary and HKD9.0 million in gain on re-measurement of previously held interests in an associate upon acquisition as a subsidiary.

Prospects

Going forward, the Group is confident that it will make further inroads in all of its business activities. In respect of the optical networking business, it will introduce the next generation of innovate products to seize opportunities from the fast evolving optical components market, particularly the cloud data center market. As for the new businesses, the Group envisages its various segments will steadily grow to become significant businesses, driven by the advent of smart factories. The Group is no less optimistic about developments on the machine vision system, fiber laser, LiDAR and coating fronts as each of these businesses will serve as catalyst for the Group's advancement and growth.

Optical Networking Business

Underpinned by innovation, the optical networking business was able to seize still greater market shares in the past year. Going forward, the Group remains fully optimistic that this business will make even greater inroads in the market that is projected to expand at a compound annual growth rate of 12% between 2015 and 2021. The telecommunications market is expected to advance further due to ongoing double-digit traffic volume growth which will drive network infrastructure developments spanning both long haul and metro networks as well as fixed access and mobile networks. On the other hand, the upslope demand for web-scale data centers and data center upgrades to complement the introduction of 100GbE since the second half of 2016 are expected to be the catalysts of the data-communications market.

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

While the Group already possesses strong R&D and manufacturing capabilities, they will be further bolstered by the acquisition of 3SP Technologies in the first half of 2017. Besides generating synergies with the Group's research and manufacturing operations, the company holds unique expertise in the state-of-the-art production of InP and GaAs based laser chips which will directly benefit the Group's existing and future businesses.

Automation & Sensing Businesses

The revolution that is taking place in the manufacturing and production industry brought upon by Industry 4.0 and the "Made in China 2025" initiative will have a significant and positive impact on the automation and digitalization market in the coming decade and beyond. Furthermore, while China's automaton industry will be valued at approximately USD100 billion in 2020 according to an estimate, a large number of local Chinese enterprises remain in past industrial stages, hence the window of opportunity is immense. The Group will therefore look to build on the successes achieved by its automation and sensing businesses by providing automation solutions, as well as offering machine vision system and fiber sensor product. The development of such products began in 2013, launched in 2015, and will be further expanded by a new series of products for penetrating the intelligent, digital and networked manufacturing market in the coming years. The Group is confident that its automation and sensing products will be able to both seize opportunities from the aforementioned market, and from the Industry 4.0 market — placing the Group among the first automation solutions providers in Industry 4.0.

The Group's advanced technology platforms will continue to support its development in the fiber laser business. With the introduction of additional building blocks for multi-kilowatt fiber lasers, the Group is positioning itself as a key enabler in the transition of materials processing markets to the fiber laser, to include metal cutting and welding, as well as marking and engraving. The Group already has a number of fiber optic components in the pipeline that will support its ambitions in the fiber laser business.

ADAS is believed to be one of the most significant technologies to affect the evolution of the automobile. The Group is committed to developing LiDAR — a key solution used by ADAS — in order to lead the industry in revenue derived from LiDAR for autonomous vehicles. Already one of the key components suppliers of the technology, the Group is optimistic about its future demand, and to expedite adoption, the Group has embarked on development of the next generation of LiDAR that would be at a lower price point. This would make ADAS a more cost effective proposition to members of the automotive industry. The Group is confident that this business segment will serve as an additional revenue stream that can drive the Group's overall revenue growth in the future.

Coating and New Materials Business

As for coating business, which enjoy high gross margin and continue to gain growth momentum, the Group will seek to encourage business development by establishing O-Net Coating and Materials Technology Limited as a focus subsidiary. Building on the strong demand for quality and high-end coating technologies to ceramic fingerprint sensor and ceramic casing for fingerprint resistant as well as color lamination for glass casing from smartphone manufacturers, the Group is striving to secure more new customers, including from the consumer electronics industries by leveraging the Group's expertise in coatings.

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

Biographical Details of Directors and Senior Management

Executive Director

Mr. Na Qinglin

Mr. Na, aged 50, is the 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, and was also appointed as an executive Director of the Company on 12 November 2009. He was re-designated from Co-Chairman to Chairman of the Board on 7 October 2016. 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 all the 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 did not hold any directorship in other listed public companies in the past three years.

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 Director

Mr. Tam Man Chi

Mr. Tam, aged 69, was appointed as a non-executive Director on 30 November 2009. He had been the Co-Chairman of the Board from 9 April 2010 to 7 October 2016. 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 ("Kaifa") (Stock Code: 000021), a company listed on the Shenzhen Stock Exchange. He started working for Kaifa as a director and vice chairman since November 1988 and he was re-designated as the chairman of 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 1995, the "Title of Excellent Worker of Guangdong Province" and the "Leadership Award for Businessmen in Shenzhen" in 2006.

Mr. Chen Zhujiang

Mr. Chen, aged 49, 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 Suzhou Kaifa Technology Co., Ltd., Dongguan Kaifa Technology Co., Ltd., Huizhou Kaifa Technology Co., Ltd. and Shenzhen Kaifa Technology (Chengdu) Co., Ltd. He has held these positions since June 2005, May 2011, July 2011 and April 2016 respectively. Mr. Chen is currently the vice-president of 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. 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 56, 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 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.

Biographical Details of Directors and Senior Management

Independent Non-Executive Director

Mr. Deng Xinping

Mr. Deng, aged 50, 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") of the Company 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 did not hold any directorship in other listed public companies in the past three years.

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.

Mr. Ong Chor Wei

Mr. Ong, aged 47, 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 26 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), Denox Environmental & Technology Holdings Limited (Stock Code: 1452) and Nameson Holdings Limited (Stock Code: 1982), all three companies are listed on the main board of the SEHK.

Previously, Mr. Ong was a non-executive director of Hong Wei (Asia) Holdings Company Limited (Stock Code: 8191) from 13 December 2013 to 12 October 2016, a company listed on the Growth Enterprise Market of the SEHK. Save as aforesaid, Mr. Ong did not hold any directorship in other listed public companies in the past three years.

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 52, 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 24 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 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. Yu Qinrong

Dr. Yu, aged 63, is the Vice President of Research and Development of the Group, where he is responsible for overseeing optical networking product development activities including the R&D teams in the USA, and Shenzhen and Hangzhou, China. He is also responsible for leading the R&D team in the USA in the development of optical transceiver products. 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 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, U.S.A. and a PhD. degree in Physics (Fiber Optics) from the University of Ottawa, Canada.

Dr. Kan Jiaxi

Dr. Kan, aged 74, 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.

Biographical Details of Directors and Senior Management

Dr. Yu Aihua

Dr. Yu, aged 59, is the Chief Scientist of the Group He has served as Vice President of Research and Development — Modules and Subsystems and Vice President of Marketing. He is responsible for overseeing the development of optical networking modules and subsystem products, including Optical Amplifier of the communication division in Shenzhen, China. He joined the Group's on 16 April 2004.

Dr. Yu has over 34 years in optical communication and optoelectronics areas. Prior to joining the Group, he has gained international working experience at various information technology enterprises including Lucent Technologies in the United Kingdom and Innvonance Networks in Canada. Before that, he was the senior research officer and chief research officer in the Department of Electronic Systems Engineering at Essex University, UK. He has published more than 20 technical papers in the area of optoelectronics in international technical journals and conferences, and he is the author or co-author of more than 10 related patents.

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

Dr. Liu Yi-Cheng

Dr. Liu, age 54, the Vice President of Global Operations joined the Group in March 2017. He is responsible for supervising overall manufacturing operations, including production, engineering and supply chain management.

Dr. Liu has more than 20 years hands-on technical and management experience in optical communications industry. Prior to joining the Group, he held various senior management roles as the Vice President of Hong Kong Applied Science and Technology Institute, the CEO of Hisense Broadband Multimedia Technologies Limited., the President of PCL Technologies (Suzhou) Co. and the Director of SAE Magnetics (HK) Ltd.

Dr. Liu holds a PhD. degree in Electrical Engineering from University of Maryland, College Park. He also earned a Master degree in Electrical Engineering and Computer Science from Washington University in St. Louis, U.S.A.

Mr. Tan Boon Thong

Mr. Tan, aged 47, is the Vice President of Sales. 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 48, is the Vice President of Global Marketing, where he is responsible for advancing the product marketing and product management operations of the active optical networking products especially the products in the data communication business. In addition, Dr. Gong directly oversees profit and loss and product strategy development with the objective of supporting the Group's future growth. 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 Computer Networks and a Ph.D. degree in Physics, both from the University of Southern California, U.S.A..

Dr. Hua Yimin

Dr. Hua, aged 55, is the Vice President of Global Marketing where he is responsible for overseeing the product marketing and product management operations of passive optical components, modules, subsystems and amplifiers in the optical networking division, as well as LiDAR products in the automation and sensing division. He joined the Group on 10 October 2011.

Dr. Hua has over 23 years of solid experience in research and development and product marketing in the telecommunications industry at various technology enterprises. His experience is also derived from his previous jobs at various technology corporations. Prior to joining the Group, Dr. Hua held senior positions at a number of companies in the U.S.A., where he headed up the development and marketing of fiber optic components and optical networking products.

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

Mr. Kung Sze Wai

Mr. Kung, aged 44, 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 19 years' experience in finance, accounting, auditing, taxation and company secretarial services as well as over 13 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.

Biographical Details of Directors and Senior Management

Dr. Shen Fei

Dr. Shen, aged 37, 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 equipment and advanced vision inspection systems.

Dr. Shen has over 14 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 51, is the Vice President of Consumer Electronics Division. 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 component coating products. He had over 19 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 58, is the Chief Executive Officer of ITF Technologies Inc. (formerly known as "Avensys Inc.", together with its subsidiaries, "ITF") a wholly-owned subsidiary of the Group, on 12 January 2015, where he is responsible for overall management team and daily operations of ITF. Mr. Konstantinidis joined the Group as Vice president of Marketing for industrial and optical networking products on 12 November 2014.

Mr. Konstantinidis has over 27 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 57, is the Vice President of Product Engineering of ITF, where he is responsible for overseeing the research and development department of ITF. He joined ITF on 1 September 2004.

Mr. Holehouse has over 27 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 VicePresident of Packaging Engineering for Alfalight, Inc.

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

Environmental, Social and Governance Report

1. About This Report

This report is prepared in accordance with the requirements under the "Environmental, Social and Governance Reporting Guide" ("ESG Report Guide") as contained in Appendix 27 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

This report contains the performance and management measures of the Group with respect to environmental, social and governance. Following the ESG Report Guide, the preparation of this report shall be subject to the principles of materiality, quantitativeness, balance and consistency, for the purposes of fully reflecting the results achieved by the Group with respect to ESG issues, as well as fully addressing issues and expectations concerning the stakeholders.

This report, partial contents of which may be retrospective, will cover the period from 1 January 2016 to 31 December 2016.

2. Stakeholders' Engagement

The Group recognizes the performance of corporate social responsibility as the purposes of establishing mutually beneficial cooperation with all stakeholders, in which case, we proactively engage in communications with our stakeholders through various communications channels to understand and actively respond to the propositions and expectations of all parties in question in a timely manner.

Stakeholders	Issues concerning stakeholders	Communicative channels with stakeholders
Clients	Product quality Customer information security Customer service experience Intellectual property protection	Customer satisfaction questionnaire Daily communications Seminars
Employees	Remuneration and employee's benefits Career development Labor rights Safe and healthy working environment	Employee meetings Internal corporate magazines Employee training Employee satisfaction survey Employee complaint channels

Stakeholders	Issues concerning stakeholders	Communicative channels with stakeholders
Shareholders and investors	Financial results Operational compliance Risk control Strategic planning	General meetings Investor meetings Annual and interim reports Circulars and announcements
Government authorities	Tax compliance Operational compliance Environmental impacts Public welfare	Inspection and meetings Seminars
Suppliers and partners	Business ethics and honesty Supply chain management Production safety	Tender procedures Regular review and assessment
Industrial associations	Product research and development Product quality	Industry seminar Industry exhibitions
Community	Environmental protection Job opportunities Charity and public welfare	Eco-industrial park demonstration Community welfare

Environmental, Social and Governance Report

3. Materiality Assessment

Prior to preparing this report for the year, we commissioned a third-party consulting institution to conduct a questionnaire with our internal and external stakeholders, based on which, we had a fully thorough picture of the stakeholders' concerns and expectations about the ESG performance of our Company, with a view to reviewing our strategic planning and development orientation with respect to our ESG issues.

This questionnaire comprised 17 ESG issues covering 11 ESG aspects, namely, emissions, use of resources, environmental efficiencies initiatives, employment, health and safety, development and training, labor standards, supplier management, product responsibility, anti-corruption and community investments. In this questionnaire, all stakeholders were invited to rate all issues by degree of significance. The third-party institution was responsible for preparing and analyzing this questionnaire, the detailed assessment and findings of which may be referred to the matrix of materiality (the level of which gradually increases from left to right and from bottom to top).

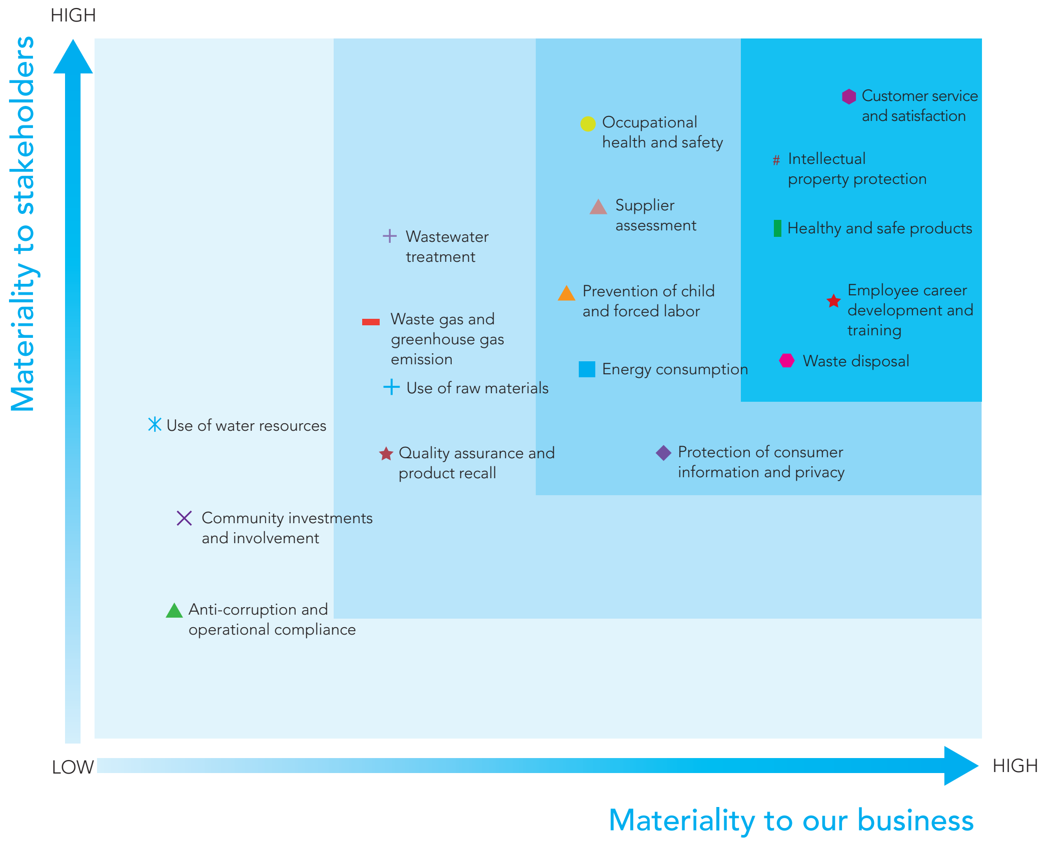


Figure 1: Findings of the 2016 ESG Materiality Assessment of the Group

In the future, the Group will continue to conduct regular materiality assessments with a gradual extent in the scope and number of stakeholders participated in questionnaires, which will provide a better picture of the opinions of our stakeholders and enable the Group to effectively perform our environmental and social responsibility.

4. Our Environmental Commitment

By acknowledging the important role of environmental protection in the corporate and social sustainability, the Group always considers prevention and control of environmental pollution as an important part of minimizing the operational risks of the Company and performing our social responsibility.

In strict compliance with the national and local environmental laws and regulations, the Group implements internal environmental management system and initiatives to effectively manage emissions and use resources during our productions and operations, thus preventing emissions of pollution and hazardous environmental incidents.

During the reporting period, no violation against any relevant environmental regulations was found.

4.1 Emissions Management

The Group will exercise stringent management of wastewater, waste gas, noise, solid waste, and other environmentally harmful substances during our productions and operations, which will minimize or eliminate environmental impacts. With respect to various types of emissions and industrial noise, the Group will obtain discharge permits by submitting the relevant applications to the environmental protection authorities in a timely manner, whereby stating the planned emission types, discharging volumes, and processing techniques.

The Group will regularly appoint professional testing institutions to monitor the fumes, industrial waste gas, domestic sewage, and noise. In 2016, the monitoring results showed all emissions were in compliance with national and local standards.

Wastewater

Assembly is the major production activity of the Group, the main wastewater of which is comprised of wastewater from our cleaning process, as well as toxic-free and hazard-free common domestic wastewater.

To treat wastewater, the Group will appoint a specialty company to design and install a wastewater treatment facility, which realize automated and stable wastewater treatment by integrating the "physical + biochemical" treatment process with a comparatively advanced automated dosing system in China. This will ensure wastewater discharge complies with the "Wastewater Discharge Standards" in Guangdong Province.

Waste gas

The major emissions of waste gas are sorted into waste gas from air compressors, air-conditioners and welding process. The Group strictly implements the "Air Pollutant Emission Limits" in Guangdong Province, under which, all waste gas will be purified to meet various emission requirements and standards before high-altitude emissions through pipelines.

Noise

The Group's air compressors, air-conditioners, and welding process are the major noise sources. To minimize noise, the Group will select premier equipment, sound absorption materials, and sound absorption walls, and strengthen daily maintenance work for equipment. We will conduct regular inspections each year, and the relevant monitoring results show our noise is in compliance with national standards.

Environmental, Social and Governance Report

Solid waste

The Group's solid waste during its operations is mainly comprised of recyclable waste, non-recyclable waste, hazardous waste, construction waste, and kitchen waste.

To ensure waste disposal is in compliance with the environmental protection regulations and requirements, the Group formulates the "Waste Disposal Procedures" to define the standards of collection, storage, delivery, relocation, and responsible departments so that environmental pollution accidents may be eliminated.

➢ Recyclable and non-recyclable waste: a recycling service provider will be designated to dispose such waste on a regular basis;

➢ Construction waste: the construction contractor, under the supervision of the Group's department in charge of property, plant, and equipment, will dispose such waste in accordance with the requirements under the laws and regulations;

➢ Kitchen waste: the cafeteria will be responsible for daily disposal under the supervision of our logistics management department.

Hazardous waste disposal

The hazardous waste from the Group's productions and operations is comprised of organic solvents used in the cleaning process and sludge from the wastewater recycle process. The department that produces such hazardous waste together with our department in charge of property, plant, and equipment will be responsible for disposal of such waste. To clarify the accountability and minimize environmental and safety risks, the Group formulates and updates the "List of Personnel Responsible For Disposing Hazardous Waste" on a timely basis. The department in charge of property, plant, and equipment will provide regular training to those personnel responsible for disposing hazardous waste.

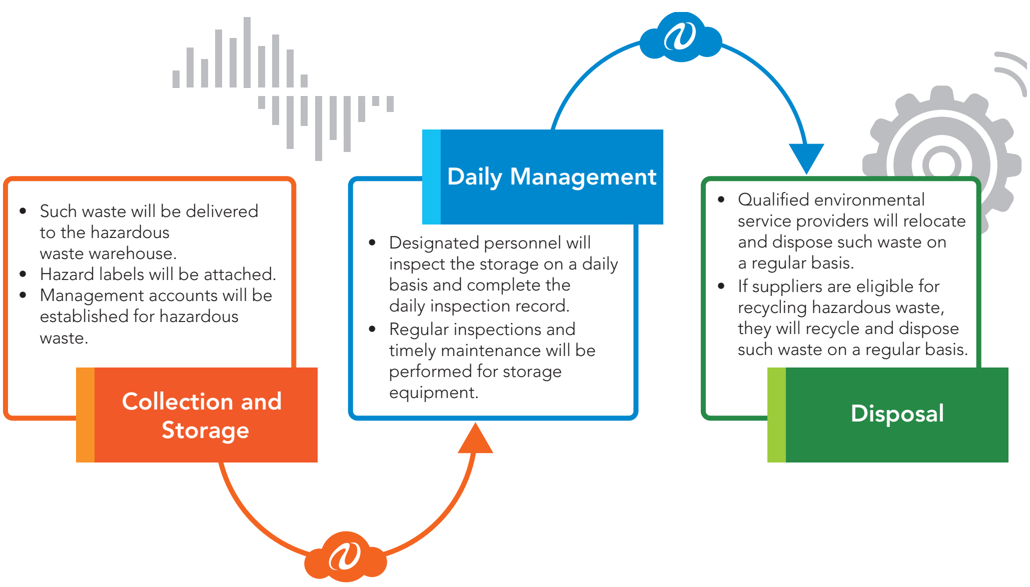


Figure 2: Storage and Disposal Procedures for Hazardous Waste

4.2 Use of Resources and Environmental Measures

Use of energy, energy conservation, and emission reduction

To minimize the greenhouse gas emissions, the Group will vigorously introduce various advanced energy-saving technologies that minimize energy consumption and enhance comprehensive energy utilization rate.

To minimize the power consumption of the air-conditioners within the factory, the Group launched a comprehensive transformation project with respect to the energy-efficient air-conditioning system, the specific technologies and results of which include:

(1) Highly-efficient air-conditioning engine is installed to save energy and reduce emissions;

(2) The air-conditioning engine's heat recovery function allows cool water to be preheated with residual heat emitted from air-conditioning before supplying such preheated water to the heat pump of the heating system installed to our quarters, which reduces energy consumption of the heat pump;

(3) The ecofriendly HFC-134A refrigerant prevents any damage to the ozone layer.

To promote the use of clean energy, the Group's staff quarters is installed with the solar water heating system, the specific technologies and results of which include:

(1) An array of solar thermal collectors are installed to achieve the clean and ecofriendly purposes of zero pollution and emissions;

(2) The interlock and automated control of the air source heating pump and the solar circulation pump controls the temperature of the water tank, which will maximize the use of solar energy to reduce energy consumption of the air source heating pump.

Figure 3: Solar Panels on the Rooftop of Our Staff Quarters

Environmental, Social and Governance Report

Use and Circular Utilization of Water Resources

The water source of the Group mainly comes from the municipal water supply system, which is principally used in the cleaning process during our productions. To strengthen the implementation of cleaning productions, the Group appointed a professional environmental service provider to design and install a sewage purification system, under which, industrial wastewater will be treated to minimize water pollution. Meanwhile, we expand our circulation of water resources by cleaning and greening the factory premises with purified wastewater and harvested rainwater. This improves the utilization rate of water resources and conserves the water environment.

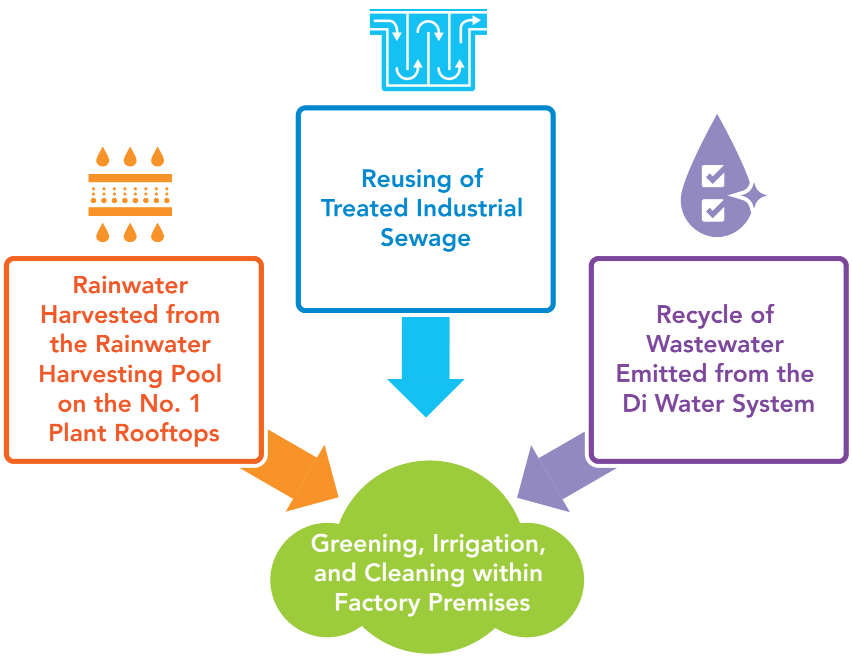


Figure 4: Circular Utilization of Sewage within Factory Premises

The sewage purification process within our factory premises has a daily treatment capacity of approximately 30 tons of industrial wastewater. The purified wastewater will be used for watering the plants, minimizing pollution on the ecosystem.

Figure 5: Sewage Purification Project within Factory Premises

The Group is committed to minimizing environmental impacts by gradually eliminating obsolete equipment and technologies and implementing ecofriendly productions and managements. In addition, the Group has obtained the ISO 14001:2004 Environmental Management System certificate.

Being recognized by the National Development and Reform Commission and the Ministry of Finance as part of the "National Demonstration and Pilot Eco-Industrial Park" (國家循環化改造示範試點園區) and the "Central Government's Fiscal Support Projects" (中央財政資金支持項目) in August 2015, the Group continues increasing its investments in environmental projects, enhancing communications with and learning from industrial peers in local areas about environmental innovation, as well as cooperating with many enterprises to improve our sustainability.

Figure 6: ISO 14001 2004 Environmental Management System Certificate

4.3 Green Philosophy and Practice

On top of energy-saving and ecofriendly equipment, the Group will actively promote our environmental philosophy to our employees and encourage them to maintain a green office environment and environmentally friendly lifestyle, enabling the Group to achieve the objectives of energy conservation, consumption reduction, and green and healthy development.

The Group promotes environmental protection to our employees through multiple channels, including environmental bulletins and promotional labels in the office buildings and staff quarters, recycle bins in the office areas, and hand dryers for hand wash sinks to reduce use of tissue. Promotional texts combined with practical actions assists our employees in putting the environmental philosophy into actions.

Environmental, Social and Governance Report

5. Our Commitments to Employees

The Group has always perceived talented professionals as the most valuable resources and assets. For our employees to grow together with us, the Group, under the people-oriented tenet, persistently respects and safeguards various legitimate rights of our employees, provides a fair platform for career development, and cares the physical and mental health of our employees.

5.1 Employment

Recruitment and talent pipeline

The Group adopts multiple recruitment platforms, including campus placement, social recruiting, and employee referral. As for recruitment or appointment of any employee, the Group provides a fair competition platform for talented professionals based on their merits rather than personal discretion.

As a high-tech enterprise, the Group stresses importance to the talent pipeline. Currently, the Group employs 159 researchers in three research and development offices located in Shenzhen and Hangzhou (China), as well as Silicon Valley (USA). In 2016, no core researcher tendered their resignation.

Remuneration and fringe benefits

The Group provides competitive remuneration and fringe benefits in the market to attract and retain outstanding talents, laying a solid foundation for supporting our fast development.

The Group's overall remuneration package includes standard remuneration, allowances, and bonus. Employees' bonus, which is based on their monthly performance assessment, indicates the Group recognizes and rewards such employees for their performance and contribution.

The Group also devises a share incentive scheme, under which, eligible employees have the opportunity to participate in the development, and achievements of the Group and be incentivized to make contributions to the long-term development of the Company.

Meanwhile, the employees are entitled to various fringe benefits, including:

- Insurance policies: subject to the national and local laws and regulations, the Group provides pension, medical insurance, unemployment insurance, injury insurance, maternity insurance, and housing fund to eligible employees.

- Pay leave: In addition to statutory holidays, the Group also ensures our employees will be entitled to annual leave, wedding leave, maternity leave, etc. so that our employees enjoy a balance between work and life.

- Life within the park: The Group provides our employees with quarters and apartments. Convenience stores, barbershops, post offices, telecommunication providers, and other convenience facilities are provided within the living area, while Chinese and Western-style food and drinks are provided in our employees' cafeteria. Furthermore, meal allowances are offered to our employees.

- Daily commute: In view that our factory location is comparatively remote, the Group provides free shuttle bus routes for our employees to commute, which simultaneously improve the travel efficiency, save energy, and reduce greenhouse gas emissions.

- Collective activities: All departments organizes gatherings and activities on a regular basis to enhance team cohesiveness.

- Birthday blessing: Birthday employees will receive exquisite birthday gifts, allowing such employees to experience collective care.

The Group pursues various forms of caring to improve our employees' happiness at work and sense of corporate identification, minimize the turnover rate, and build a united and caring work environment.

Career development and promotion

To satisfy the development needs of the Company and employees, the Group establishes a clear job promotion platform with an integrated assessment system.

Subject to our internal system and requirements, the superiors and employees throughout the entire upstream and downstream process are required to be involved in the integrated assessment, and multi-dimensional assessment is performed, including qualification for the position, performance, personal quality, and working attitude. In this way, an employee's professional level, ability, and attitude is thoroughly assessed.

The Group provides outstanding employees with an opportunity of job promotion, which is based on personal application and superior's referral. Our human resources department will lead the relevant department in conducting an integrated assessment at multiple levels.

As stipulated under the Group's job promotion system, to timely recognize our employees' important contribution to the Company and strengthen their positivity at work, an exception may be made for promoting those extremely outstanding employees who are not eligible for the relevant position or other basic requirements.

Employee rights

In strict compliance with the Labor Law of the People's Republic of China and the relevant laws and regulations, the Group enters into definitive labor contracts with our employees, respects and safeguards the legitimate rights of our employees, and opposes any form of discrimination. In addition, the Group will strictly investigate and resolve any non-compliant incident.

Communications with our employees

The Group is committed to creating an open environment for communications, and values the voices of our employees. Our working environment questionnaires, interviews, and other forms helps the Group timely understand the propositions and expectations of the employees so that organization and talent pool management will be more specifically fine-tuned and improved.

Upon induction, the Group assigns an employee coach to each new employee. In case of any issues to be resolved, the employee may communicate with this employee coach to timely obtain guidance and assistance.

Environmental, Social and Governance Report

5.2 Health and Safety

The basic responsibility of an enterprise is to guarantee the occupational health and production safety for the employees. As a result, the Group formulates and constantly improves its internal safety management systems and production safety control systems in strict compliance with the "Production safety Law of the People's Republic of China" and other relevant laws and regulations.

In November 2016, the Group obtained the OHSAS 18001:2007 Occupational Health and Safety Management Systems Certificate issued by the UK-based BSI, pursuant to which, the Group will strive to minimize safety risks and provide a healthy and safe working site for our employees by constantly improving our production safety conditions and our safety prevention measures in production sites, as well as formulating a production safety accountability system.

Figure 7: OHSAS 18001:2007 Occupational Health and Safety Management Systems Certificate

Fire safety

At the beginning of 2016, the Group officially established the "Fire Control Archives" to provide clear and effective regulations governing fire safety planning, repair and maintenance of firefighting equipment, and safety inspections within the factory premises. Meanwhile, the Group establishes our fire safety management structure and supervisory mechanism in combination with superior inspection and self-inspection, with a view to improving our ability to identify and fix safety risks within the factory premises.

To enhance our capability to prevent fire accidents and carry out emergency plans, the Group further revises the plan to fight fire and carry out emergency evacuation in a detailed manner, and regularly organize fire drills and fire safety education events. Subject to our current system and requirements, the Group provides fire safety training to new employees upon their induction, while annually organizing company-wide fire safety training for all employees. In addition, the Group proactively encourages the fire safety manager and the related practitioners to participate in training programs sponsored by the fire departments and external professional institutions. Our fire safety bulletins set up within our factory premises will daily advertise information to enhance our employees' awareness of safety.

Occupational health

In strict compliance with the "Occupational Disease Prevention Measures of the People's Republic of China" and the "Regulations on Occupational Health Supervision and Management in Worksites of the People's Republic of China", the Group distributes personal protective equipment to our employees and monitor their use of such equipment. In addition to maintenance and repair work carried out to protective facilities against occupational diseases, the Group regularly appoints qualified inspection institutions to inspect and identify hazardous factors related to occupational diseases at the worksites, the findings of which is required reported, archived, and submitted to the administrative department of the local government.

According to the inspection report produced by our appointed inspection institution in September 2016, our measuring results concerning hazardous factors were in compliance with the requirements on occupational exposure limits for hazardous agents.

Care for physical and mental health

The Group actively promotes the philosophy of working with a healthy and happy life by providing sports facilities and regular health exminations to our employees, as well as encouraging our employees to focus on developing physical and mental health.

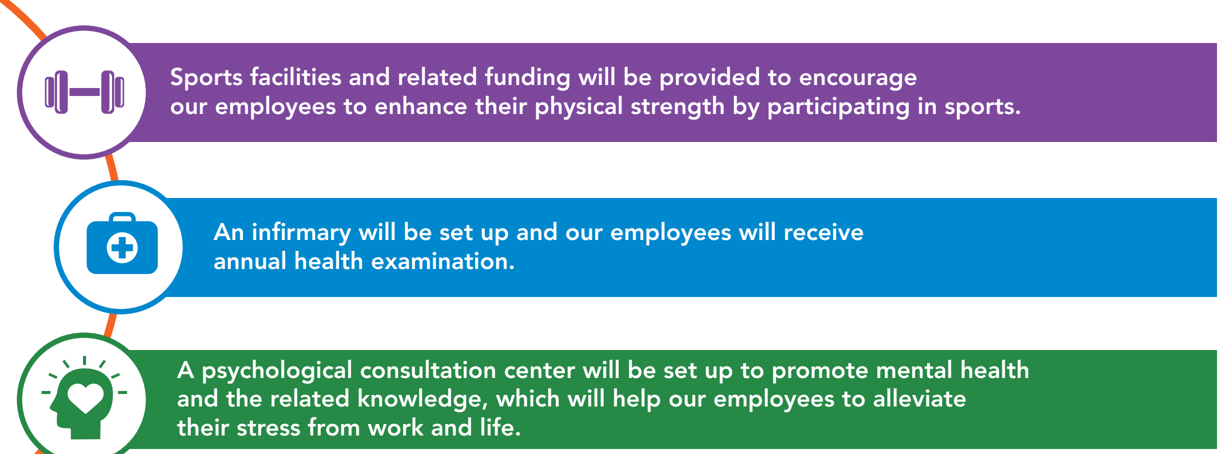


Figure 8: Multiple Channels to Care for Physical and Mental Health of Our Employees

Environmental, Social and Governance Report

5.3 Development and Training

In consideration that an employee's personal growth lays a solid foundation for the long-term development of an enterprise, the Group constantly improves its internal career training system by formulating annual training programs, which provide our employees with thorough and systemic training courses to enhance our employees' knowledge capital and competence.

Employee Orientation	Expertise	Comprehensive Knowledge
Basic information about the Company and the related department will be introduced to new employees. Our training about job-related knowledge and skills will enable such new employees to quickly acquire the necessary expertise and ensure their fit in the job description.	Knowledge, expertise, and working attitude, or job-related new knowledge and expertise, which are required for the relevant work and assignment, will be effectively attained.	Employees will be trained for their comprehensive knowledge, including English, computer science, to improve their competence.
A 3-day orientation training session will be organized by our human resource department.	In-house training, on-the-job coaching, and external training programs will be provided.	In-house training programs will be provided, and external coaches will be appointed to present lectures.

College Graduate Training Program

The Group formulates a series of training and coaching programs, including fresh graduate job fairs, induction training, corporate retreats, and "one-on-one" coaching. These will help fresh graduates adapt to the working environment as an entry-level employee and quickly assimilate into the working team.

English Language Training

Considering the working requirements and personal interest of our employees, the Group appoints an English teacher to coach our employees on different topics in English. Our employees are admitted to such free half-day training on a voluntary basis, which takes place on each weekend and on average lasts for one month.

Such training is provided to a small class of approximately 25 employees to ensure learning quality. The midterm and final examinations will timely help our employees gain a full picture of their learning progress.

Approximately 100 employees participate in such English language training every year.

5.4 Labor Standards

In strict compliance with the national and local labor laws and regulations, the Group implements internal employment management systems and recruitment procedures to ensure an amicable and stable labor relationship with our employees without child labor or any form of forced labor.

The Group implements the standard working hour of 40 hours per week, but the flexible working hour system and comprehensive working hour system are also in place for certain special positions. In case of overtime, the Group will pay overtime wages based the hours of overtime.

The Group respects the right of all employees to join associations, including the workers' union, as well as the right of collective negotiation.

Environmental, Social and Governance Report

6. Our Commitments to Customers

One of the Group's strategic objectives is to "create customer values". Over years of development, the Company has established amicable partnership with many industrial leaders and provided them with premier products and services.

Premier products and services originate from the Group's effective implementation of its procedural management from procurements, productions, and sales to aftersales services, covering quality inspection of incoming raw materials, quality control, protection of customer information, etc.

6.1 Supplier management

Under the Group's stringent system to select and manage suppliers, the development of suppliers, categorization management, regular assessment, and supervision and inspection are thoroughly managed and defined with a view to enhancing our capacity to manage our suppliers.

The Group provides an open and transparent platform for participating in tender processes, under which, selections are based on merits. Under our annual review schedule, important suppliers will be subject to regular assessments including review over quality control procedures and systems, while rating will be given to the supplies, service quality, and other areas before we formulate the list of eligible suppliers. Due to various management measures in place, we ensure the product quality of our suppliers and minimize quality risks.

Management of conflict-free metals[1]

To meet the requirements of international clients and perform the corporate social responsibility, the Group formulates a mechanism to regulate, control and investigate raw materials and conflict metals for our products, and standardizes the procedures of "prevention, inspection, investigation, and improvement". These prevent the use of conflict metals in the raw materials and products of the Company, and minimize the risks of producing and selling our products.

The Group requests our suppliers to engage in investigations into conflict minerals in the supply chain with a statement of guarantee over such materials. In addition, the "Statement of Commitment to Using Conflict-Free Minerals" and "Conflict-Free Metal Report" will be submitted as supporting statements. Meanwhile, the Group will join forces with the suppliers to continue enhancing the ability to control conflict-free metals.

In accordance with the latest requirements on conflict minerals under the EICC and GeSI, the Group will conduct investigations and verifications on our certified suppliers of various raw materials by using the EICC-GeSI Conflict Minerals Reporting Template as defined under the IPC-1755 Conflict Minerals Data Exchange Standard, with a coverage rate exceeding 85%.

1 "Conflict Minerals" refer to rare metals, including cassiterite, wolframite, coltan, iron, and gold ores, within Democratic Republic of the Congo and its neighboring countries and regions, the exploitation of which constitutes severe violation of human rights and material environmental issues, as revenue may probably be used to finance local armed conflicts.

Green supply chain

When extending the green industrial chain, the Group will require our suppliers to formulate the relevant systems and management procedures that ensure all supplied materials will be in compliance with the requirements under the RoHS Directive and REACH Regulation adopted in the European Union, as well as the RoHS Directive adopted in China.

As for inspection procedures with respect to the materials under the RoHS:

- the RoHS labels and reports with respect to materials shall be inspected, and provision of the COC certificate for electronic materials is required;
- the RoHS compliance testing will be performed with reference to the "RoHS Compliance Testing Standard";
- If any item under the RoHS testing fails and no update is made more than ten working days, such materials will be returned.

6.2 Product quality

Under the Group's strict quality management system, our quality and system department as the major competent department closely monitors production quality during the entire production process to ensure product quality is in compliance with our internal standards and customer specifications.

Quality system certification

In 2004, the Group for the first time obtained the ISO 9001 Quality Management System certificate issued by the British Standards Institution. In 2005 and 2007, the British Standards Institution granted the Group the TL9000:3.0/3.5 and TL9000:4.0/3/5 Quality Management System certificates for our telecommunication services.

In December 2016, the Group received the latest revision with respect to the aforesaid certificates.

Figure 9: ISO9001:2008 Quality Management System Certificate

Figure 10: TL9000-H R5.5/R5.0 Quality Management System Certificate

Environmental, Social and Governance Report

Product quality inspection

As the majority of the Group's products are customized, our quality and system department devises and strictly implements the quality inspection standards and techniques in accordance with the technical parameters and requirements of our customers. As the Group's indigenously developed information system records production and quality data on a real-time basis, our entire production process can be electronically monitored and tracked. Meanwhile, our regular sampling inspection of products ensures our supervision of product quality by batch so that we can constantly identify room for improving product quality.

To satisfy the requirements of our overseas customers, the Group simultaneously complies with various international and domestic standards regarding control and management of pollution caused by electronic information products, while closely monitoring the RoHS status of our products. In addition, the Group sets ecofriendly requirements for our products at different phases, including development, research, and design, so as to ensure our products are toxic-free and hazard-free.

6.3 Product research and development and patents

The Group believes our strategic development pivots on technological research and development, as well as innovation. As a leading high-tech company in the industry, the Group drives industrial development and technological advancement with our core technologies constantly driven by indigenous innovation, as well as customized solutions for our clients' product development.

The Group respects intellectual property rights, and is committed to improving the management of our own intellectual property rights. We believe constant innovation and protection of our intellectual property rights serve as competitive strengths to drive the development of the Group.

As at 31 December 2016, the Group had a total of 300 patent applications, amongst which, 123 patents were approved.

During the year, information about the patent application and approval of the Group is set out as follow:

- ➢ Application for a total of 24 patents was submitted, including six invention patents, 19 utility model patents, and one design patent;
- ➢ Thirteen patents were approved, including one invention patent, and 12 utility model patents.

6.4 Customer services and complaint handling

While actively investing in our product research and development, the Group stresses importance of the quality and standards of our customer services, timely and effective responses to customer complaints, and the establishment of an outstanding brand and image.

To guarantee our customer service quality, the Group formulates a more comprehensive system of customer service management, under which, various key points involved in our services will be regulated and managed. To date, the Group has established a global business network that covers the American and European continents, Middle East, Japan, India, and other regions. Our overseas operation's gradually established system of presales, sales, and aftersales services enhances customer satisfaction and brand loyalty, further improving our sales percentage in the overseas market, as well as building a more competitive landscape of globalization.

To address customer complaints, the Group has formulated the "Customer Complaints and Return" policy, according to which, complaints will be handled and followed up by a specific responsible officer. Under normal circumstances, responses shall be made to customer complaints within 24 hours, and the relevant departments are required to resolve such issues as soon as practicable. In case of any delay without any justifiable reason or failure to resolve such issues in a timely manner, our quality and system department will report the issues in question to the superiors, and the involved parties will be held accountable.

To address customer complaints, we set up a response team to prepare solutions, subject to the severity of such complaints in question. Over the course of handling such issues, we ensure timely communications with our customers to gain a full picture of their opinions and needs, reach a consensus with our customers on viable solutions to the issues in question, and work with them until the issues in question are effectively resolved.

6.5 Protection of customer information and privacy

The Group values confidential customer information and other property safety by establishing various internal systems, including the "Customer Property Management Procedures" and the "Procedures on Using and Managing Electronic Documents", the purposes of which are to clarify and regulate the control measures for customer information during our business processes and competent departments so involved. In the meantime, the Group establishes a documentation control center, which will be responsible for the unified management of customer information to strictly prevent the divulgement of information.

According to the "Information Safety Manual" issued by the Group, our employees are required to keep our trade secrets confidential and properly maintain all classified documents. Without any authorization or approval by the Company, no employee is permitted to provide external parties with any corporate document marked with "Confidential", as well as publicly unavailable operating conditions and business data. For those positions involving confidential customer information, employees are required to enter into the "Employee Confidentiality Agreement" and strictly perform the confidentiality obligations.

Environmental, Social and Governance Report

7. Anti-corruption

In strict compliance with various laws and regulations related to anti-corruption, the Group promotes the incorrupt and honest professional conduct, and adopts the zero-tolerance policy against any action in violation of the laws and regulations.

The Group's employee manual and our internal announcements detail the code of ethics and code of conduct for our employees to comply with. In case of any non-compliant actions, any employee may directly report the misconduct to the legal department or the human resource department of the Group, in which case, they will launch an investigation in conjunction with the involved department, and may report the misconduct to the judiciary for settlements subject to the severity of such incidents.

In 2016, there was no legal cases regarding corrupt practices brought against the Group and its employees.

8. Community Investment

The Group persists in performing corporate social responsibility, supporting and building a healthy and harmonious community, and promoting the sustainable development of the community.

As a national demonstration and pilot eco-industrial park, the Group proactively leads its neighboring enterprises in making contribution to the overall environmental quality of the community in response to the government's industrial policies of "energy conservation, emission reduction, and accelerated industrial upgrade", as well as "achieving green, low-carbon, and circular economic development". Meanwhile, the Group vigorously participates in community events and activities to express our care for underprivileged groups, whenever our actual conditions and resources permit.

The Group encourages our employees to make contribution to the community where they work and live by participating in volunteering and donation activities.

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 and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on SEHK (the "Listing Rules") as its own code of corporate governance.

During the year ended 31 December 2016, 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. Mr. Na Qinglin, the Chairman of the Company, is also the CEO. The Board believes that vesting the roles of both the Chairman and the CEO in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive Directors.

Save as those 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 2016.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of List Issuers (the "Model Code") as 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 2016.

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.

Corporate Governance 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 *(Chairman of the Board and CEO)*

Non-Executive Directors

Mr. Tam Man Chi
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 31 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.

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 2016 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 2016.

The individual training record of each Director received for the year ended 31 December 2016 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	√

Chairman and Chief Executive Officer

Mr. Na Qinglin ("Mr. Na"), Chairman of the Company, was also appointed as the CEO of the Company. The Board believes that vesting the roles of 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 Chairman and CEO of the Group are as follows:

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.

Corporate Governance Report

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 to be 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 the Company.

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 2016, 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.

General Meetings

During the year ended 31 December 2016, one general meeting of the Company was held, being the 2016 annual general meeting of the Company held on 27 May 2016 (the "2016 AGM").

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

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. Mr. Na Qinglin and Mr. Tam Man Chi, the then Co-Chairmen of the Board, and the chairman of each of the Audit Committee, the Nomination Committee, the Remuneration Committee and the CG Committee attended the 2016 AGM 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

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.

Corporate Governance Report

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 control 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 discusses with management the risk management and internal control systems to ensure effective systems are in place.

The Audit Committee are 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.

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 2016, 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 2016, 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

Corporate Governance Report

During the year ended 31 December 2016, the Remuneration Committee held one 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 an 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 40 to the consolidated financial statements.

Senior Management's Remuneration

Senior Management's remuneration payment of the Group for the year ended 31 December 2016 falls within the following bands:

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

The Nomination Committee is chaired by the 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 nonexecutive 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 Chairman 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 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 2016, the Nomination Committee held one meeting for reviewing the structure, size and diversity of the Board, assessing the independence of the independent non-executive Directors and considering 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 Report

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 2016, the CG Committee held one 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.

Auditors' Remuneration

The Company paid/payable a total remuneration of RMB3,000,000 and USD75,000 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 2016.

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 2017 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.

Corporate Governance Report

Constitutional Documents

There is no significant 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.

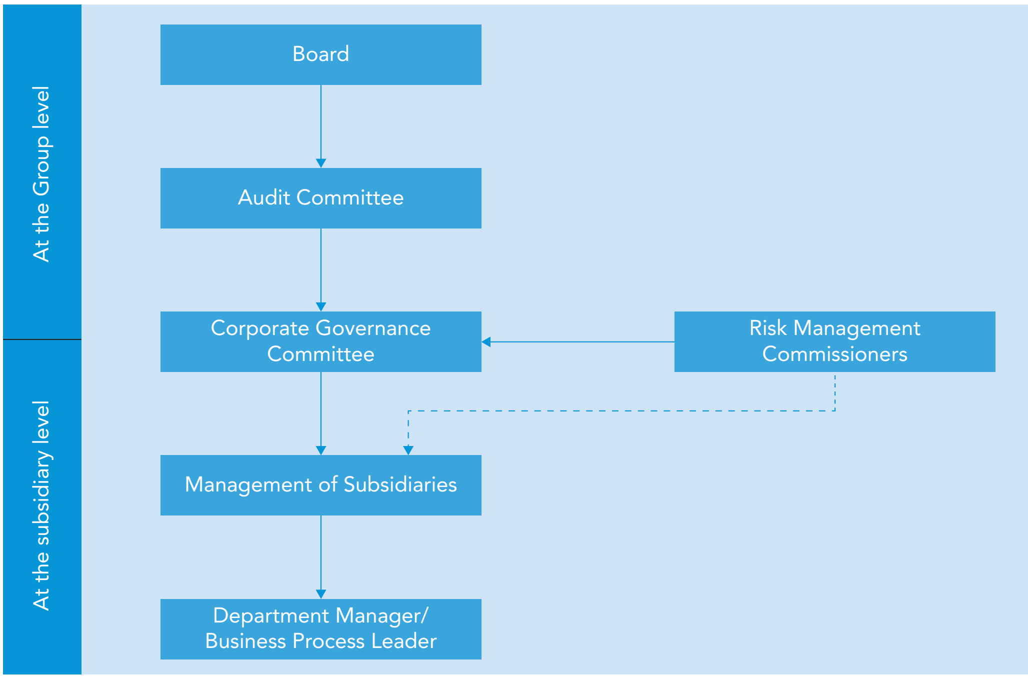
Risk Management and Internal Control

Objectives and purposes

The Board acknowledges that it is responsible for the risk management and internal control systems and oversees such systems on an ongoing basis, while ensuring a review of the effectiveness of these systems of the Group is conducted at least annually. The scope of such review covers all material controls, including financial, operational and compliance controls. The Group's risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatements or losses. The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit Committee, who oversees management in the design, implementation and monitoring of the risk management and internal control systems, and management has provided a confirmation to the Audit Committee (and the Board) on the effectiveness of these systems for the year ended 31 December 2016.

Major features of the risk management and internal control systems

The Group's risk management structure and the major responsibilities of each role of the structure are summarized below:



Role	Major Responsibilities
Board	• Determines the business strategies and objectives of the Group, and evaluates and determines the nature and extent of risks it is willing to take in achieving the Group's strategic objectives; • Oversees management in the design, implementation and monitoring of the risk management and internal control systems; • Oversees the Group's risk management and internal control systems on an ongoing basis; • Reviews the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance control; and • Ensures our appropriate and effective risk management and internal control systems are established and maintained.

Corporate Governance Report

Role	Major Responsibilities
Audit Committee	• Reviews the setups of the risk management organization and institution and its job description, as well as the fundamental system of risk management; • Reviews the "Risk Management Operational Manual" and its amendments; • Reviews assessment reports on material risks and various risk management reports; • Assesses various material risks facing the Group and current conditions of risk management; • Reviews risk management measures, and rectifies and resolves decisions or actions made or taken by the relevant organization or individuals outside the risk management system; and • Addresses other important matters involving risk management.
Corporate Governance Committee	• Reports to the Audit Committee regarding the effectiveness of risk assessment work; • Organizes and constructs the risk management system at the intragroup level; • Organizes and instructs the subsidiaries to engage in identifying and assessing material risks at the intragroup level along with overview analyses over information collected from the above engagement to prepare assessment reports on material intragroup risks and various risk management reports, and reports such information to the Audit Committee; • Manages the risks facing the Group, and studies and proposes the relevant measures and proposals to resolve material risks management at the intragroup level; and • Oversees the cultivation of the Group's general risk management culture.
Risk Management Coordinator	• Coordinate and arrange assessment of and responses towards risk exposure; • Promote risk management and assessment; and • Oversee different business departments' establishment and implementation of contingency plans and countermeasures for risk exposure.
Management of subsidiaries	• Take ultimate responsibility for risk assessment of their own business entity; • Ensure the business entity engages in risk assessment in compliance with the risk assessment manual prepared by the Group; • Review and approve risk assessment results; • Review countermeasures for risk exposure, and ensure effective risk management at the subsidiary level; • Oversee the major risks facing the subsidiary and the effectiveness of the relevant risk management measures; and • Allocate resources to risk assessment projects (including funds and human resources).
Department Manager/ Business Process Leader	• Works with the Corporate Governance Committee on regular updates of the list of specific business risks, risk assessment, and other related assignments; • Prepares and implements contingency plans for the relevant specific business risks; Takes responsibility for advancing and implementing the specific risk management measures; • Monitors and reports various risks facing specific businesses to the management; and • Processes other work relevant to risk management.

Procedures Used to Identify, Assess and Manage Significant Risks

The procedures used to identify, assess and manage significant risks by the Group are summarized as follows:

- Project establishment — a risk management project has been established to prime for risk management activities.

- Risk identification — the risks facing the Group shall be identified

- Risk analysis — a risk analysis shall be conducted to cover two dimensions, namely, the extent of consequences and the possibility of occurrence, which will assess whether the current risk management measures and decisions require further formulation of risk management measures to bring risk control to an acceptable level.

- Risk report — The results from analyses over risk management shall be summarized and an action plan shall be formulated and reported to the Corporate Governance Committee.

Internal Audit Function

The Group's internal audit function is performed by an internal audit team, which reports to the Audit Committee.

An external consulting firm has been appointed by the Group to advise on risk managements and internal control, review internal control over key business processes of the Group and report identified defects of internal control and recommendations on improvement to the Audit Committee. The Group has properly followed all recommendations provided by such external consulting firm, and ensures these recommendations will be implemented within a reasonable time frame.

With the assistance from the external consulting firm and our in-house auditors, the Board conducted an annual review of the effectiveness of risk management and internal control systems for the year ended 31 December 2016, with particular focus on the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. Such review takes place every year. In view of the above, the Board considers the Group's risk management and internal control systems are effective and adequate for the year ended 31 December 2016.

Whistleblowing policies

The Group has whistleblowing policies in place, under which, our employees may in private report any concerns (including misconducts, and improper actions or frauds involved in financial reporting matters and accounting practices) to the Audit Committee without any countercharges, and a fair and independent investigation into such concerns will be conducted along with proper follow-on actions.

Disclosure of inside information

To handle and disclose inside information under the Listing Rules and SFO, the Group has adopted various procedures and measures to, amongst others, enhance the Group's awareness of the confidentiality of inside information, regularly circulate notices to the relevant directors and employees on the lock-up period and restrictions on trading in shares, and relay information and guidelines on disclosure of inside information to such designated personnel on a need-to-know basis.

Corporate Governance Report

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 2016, 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 2016.

Principal Activities

The Group is principally engaged in the design, manufacturing and sale of optical networking products for the highspeed 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 2016 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 88 to 171.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: 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 (Chapter 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".

Directors' Report

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.

Material Event Since the End of the Financial Year

There has been no material event 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.

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, 2 June 2017 ("2017 AGM"), the register of members of the Company will be closed from Friday, 26 May 2017 to Friday, 2 June 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2017 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 Thursday, 25 May 2017.

Share Capital

Details of movements in the Company's share capital for the year ended 31 December 2016 are set out in note 20 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 Post-IPO Share Option Scheme, details of which are set out in this report.

Debentures Issued

No debenture has been issued by the Company during the year ended 31 December 2016.

Charitable Donations

During the year, the Group did not have charitable donation (2015: 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.

Directors' Report

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2016.

Distributable Reserves

As at 31 December 2016, the Company's reserves available for distribution to the shareholders amounted to approximately HKD1,421.0 million.

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 *(Chairman of the Board and CEO)*

Non-executive Directors

Mr. Tam Man Chi
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. Na Qinglin, Mr. Ong Chor Wei and Mr. Deng Xinping shall retire from office as Directors by rotation at the 2017 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 22 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.

Directors' Report

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 2016	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31 December 2016
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)	2.40	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	–	(200,000)	–	–	3,800,000
	1 June 2012	2 June 2012 to 8 April 2020 (Note 1)	1.910	8,219,000	–	(3,425,000)	–	(10,000)	4,784,000
		2 June 2012 to 8 April 2020 (Note 3)		1,387,000	–	(254,000)	–	–	1,133,000
		2 June 2013 to 8 April 2020 (Note 4)		2,884,000	–	(720,000)	–	–	2,164,000
		2 June 2012 to 8 April 2020 (Note 5)		4,355,000	–	(3,027,000)	–	–	1,328,000
	9 October 2012	9 October 2013 to 8 April 2020 (Note 6)	1.810	2,000,000	–	(1,200,000)	–	(800,000)	–
	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 10)	1.708	2,000,000	–	–	–	–	2,000,000
	25 September 2013	13 August 2014 to 8 April 2020 (Note 11)	1.652	350,000	–		–	–	350,000
	16 October 2013	14 October 2014 (Note 12)	1.628	4,000,000	–		–	–	4,000,000
	8 November 2013	8 November 2014 to 8 April 2020 (Note 13)	1.484	4,748,000	–	(517,000)	–	(168,000)	4,063,000
	9 April 2014	28 March 2015 to 8 April 2020 (Note 14)	2.40	839,000	–	(112,000)	–	(100,000)	627,000
Total				38,832,000	–	(9,455,000)	–	(1,278,000)	28,099,000

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 7 April 2014, equally over a period of 5 years.

10. The vesting period will commence on 11 September 2014, equally over a period of 5 years.

11. The vesting period will commence on 13 August 2014, equally over a period of 5 years.

12. The vesting period will commence on 14 October 2014, equally over a period of 4 years.

13. The vesting period will commence on 8 November 2014, equally over a period of 5 years.

14. The vesting period commences on 28 March 2015, equally over a period of 5 years.

A total of 38,832,000 share options granted under the Post-IPO Share Option Scheme were remained outstanding on 1 January 2016. During the year ended 31 December 2016, 9,455,000 share options were exercised into 9,455,000 Shares. 1,278,000 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 2016.

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.

Directors' Report

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' Rights to Acquire Shares or Debentures

Save as disclosed under the sections headed "Share Option Schemes" above and in note 22 to the consolidated financial statements, at no time during the year ended 31 December 2016 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 which is automatically renewable 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 which is automatically renewable 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 which is automatically renewable 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 2017 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 2016.

Directors' Interests in Shares

As at 31 December 2016, 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)	33.56%
Mr. Tam Man Chi	Beneficial owner	Long position	9,337,480	1.26%
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 2016, 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	26.66%
Shenzhen Kaifa Technology Co., Ltd.	Interest of a controlled corporation	Long position	197,636,237 (Note 1)	26.66%
Great Wall Technology Company Limited	Interest of a controlled corporation	Long position	197,636,237 (Note 1)	26.66%
O-Net Holdings (BVI) Limited	Beneficial owner	Long position	243,573,383	32.85%
Mandarin IT Fund I	Interest of a controlled corporation	Long position	243,573,383 (Notes 2 & 3)	32.85%
HC Capital Limited	Interest of a controlled corporation	Long position	243,573,383 (Notes 2 & 3)	32.85%
Hsin Chong International Holdings Limited	Interest of a controlled corporation	Long position	243,573,383 (Notes 2 & 3)	32.85%
Mr. Yeh Meou- Tsen, Geoffery (deceased)	Interest of a controlled corporation	Long position	243,573,383 (Notes 2 & 3)	32.85%
Mandarin VP (BVI) Limited	Investment manager of Mandarin IT Fund I	Long position	243,573,383 (Notes 2 & 4)	32.85%
Mandarin Venture Partners Limited	Interest of a controlled corporation	Long position	243,573,383 (Notes 2 & 4)	32.85%

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 Kaifa 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 indirectly 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, Geoffery 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 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 2016.

Major Customers and Suppliers

During the year, the Group's purchase from the five largest suppliers accounted for approximately 39.3% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 11.1% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 37.6% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 20.5% 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 38 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 2016, 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 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 cap for the rentals of the Premises and the utilities charges receivable from Butterfly under the Tenancy Agreement for the period from 1 January 2016 to 31 January 2016 is approximately RMB260,500.

For the month of January 2016, the aggregate amount of rentals and reimbursements received/receivable from Butterfly amounted to approximately HKD117,000.

(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 2016 is RMB8,000,000.

For the year ended 31 December 2016, the aggregate amount received/receivable from Butterfly amounted to approximately HKD2,020,000.

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 respectively.

Exempt Continuing Connected Transactions

On 18 March 2016, O-Net Shenzhen has entered into a renewed tenancy agreement ("Renewed Tenancy Agreement") with Butterfly in relation to the leasing of the Premises at a monthly rental of RMB52,500 for a term 3 years commencing with retrospective effect from 1 February 2016 to 31 January 2019. The transactions contemplated under the Renewed Tenancy Agreement constituted exempted continuing connected transactions of the Company under the Listing Rules. For the period from 1 February 2016 to 31 December 2016, the aggregate amount of rentals and reimbursements received/receivable from Butterfly under the Renewed Tenancy Agreement amounted to approximately HKD1,414,000.

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.

Directors' 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 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 2016 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.

Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 51 to 66 of this annual report.

Auditors

A resolution will be submitted to the 2017 AGM to re-appoint PricewaterhouseCoopers as auditor of the Company.

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

Hong Kong, 14 March 2017

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)

Opinion

What we have audited

The consolidated financial statements of O-Net Technologies (Group) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 88 to 171, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirement of the Hong Kong Companies Ordinance.

Independent Auditor's Report

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Business combination
- Goodwill impairment

Key Audit Matter	How our audit addressed the Key Audit Matter
Business combination As described in Note 4 and Note 37 to the consolidated financial statements, the Group acquired the Passive Optics Business Unit of Titan Photonics, Inc. on 12 October 2016. The purchase consideration shall be no more than USD2,000,000 (including USD500,000 contingent consideration), and the goodwill recognized was approximately HKD6m. Upon acquisition, the Group was required to determine the fair value of identifiable assets acquired and liabilities assumed in the acquiree. The determination of the fair value of these assets and liabilities requires the exercise of significant management judgement, in particular, the identification of intangible assets acquired that are not previously recorded by the acquiree. Management relied on external valuation experts to identify the intangible assets, and value the identified intangible assets (including customer relationship and order backlog). The value of customer relationship and order backlog are calculated using Multi-period Excess Earning Method. The revenue growth rate and the applied discount rate are considered to be the key assumptions.	We performed the following procedures to test the identification and valuation on the identified intangible assets: — We assessed the competency of external expert and examined the process of intangible assets identification. — We assessed the appropriateness of methodology utilized by management in valuing the identified intangible assets of customer relationship and order backlog. — We assessed the appropriateness of the revenue growth rate for customer relationship with reference to historical sale and the industry growth trend. — We cross checked the parameters adopted in the discount rate calculation (including risk free rate, beta, market risk premium, etc) with third party sources. We also cross checked the calculation result by using independent expectations of discount rate model and assumptions. Based on available evidence and our work performed, we found the key judgement applied by management in relation to the determination of the fair value of assets and liabilities acquired to be supportable.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment Refer to Note 4 and Note 9(a) to the consolidated financial statements, as at 31 December 2016, the goodwill with carrying amount of HKD24,064,000 arose from an acquisition in 2015. The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.9. The recoverable amount of cash-generating unit has been determined based on value-in-use calculation. These calculation involves significant judgement as it is to determine the value-in-use of the related cash generating unit based on assumptions used in the cash flow forecast that may be affected by the development of the new products and unexpected future market condition. In particular, revenue growth rate and the applied discount rate are considered to be the key assumption. Management concluded that, based on their assessment, no impairment loss is considered necessary.	Our procedures in relation to management's impairment assessment of goodwill included: — We evaluated the process by which management prepared its cash flow forecast of the business associated with the goodwill under corresponding cash generating unit. — We evaluated the appropriateness of value-in-use calculation methodology adopted by management. — We tested the mathematical accuracy of the underlying value-in-use calculation. — We also evaluated the historical accuracy of the plan and forecast by, for example, comparing the forecast used in the prior year model to the actual performance of the business in the current year. — We discussed with management about and evaluated the underlying key assumptions of revenue growth rate used in the cash flow forecast taking into account market developments. — We evaluated and recalculated the discount rate used in the calculation by comparing with the industry or market data. Based on available evidence and our work performed, we found the key assumption applied by management in relation to the assessment on impairment of goodwill to be supportable.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in corporate information, management discussion and analysis and corporate governance report, which we obtained prior to the date of this auditor's report, and financial highlights, chairman's statement, biographical details of directors and senior management, environmental, social and governance report, directors' report and five-year financial summary, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read financial highlights, chairman's statement, biographical details of directors and senior management, environmental, social and governance report, directors' report and five-year financial summary, if we conclude that there is a material misstatement therein, we are required to communicate the matter to audit committee and take appropriate action considering our legal rights and obligations.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirement 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee are responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lam Wai Nang, William.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 March 2017

Consolidated Balance Sheet

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

		As at 31 December	
	Note(s)	2016 HKD'000	2015 HKD'000
ASSETS			
Non-current assets			
Land use right	6	**23,826**	26,067
Property, plant and equipment	7	**701,835**	698,576
Intangible assets	9	**88,104**	65,278
Investments accounted for using equity method	14	**–**	15,553
Deferred income tax assets	27	**12,405**	10,436
Available-for-sale financial assets	11	**15,290**	12,272
Derivative financial instruments	12	**97**	1,322
Other non-current receivables	16	**26,139**	27,908
Other non-current assets	8	**131,744**	1,295
		999,440	858,707
Current assets			
Inventories	15	**269,779**	227,538
Trade and other receivables	16	**647,234**	509,195
Other current assets	17	**18,077**	2,172
Financial assets at fair value through profit or loss	18	**18,394**	–
Pledged bank deposits	19	**354,369**	5,635
Term deposits with initial term of over three months	19	**10,026**	35,808
Cash and cash equivalents	19	**169,312**	133,910
		1,487,191	914,258
Total assets		**2,486,631**	1,772,965
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	20	**7,414**	7,319
Share premium	20	**825,501**	807,830
Treasury shares	20	**(74,927)**	(74,927)
Other reserves	21	**(6,133)**	51,373
Retained earnings	23	**669,119**	538,516
		1,420,974	1,330,111
Non-controlling interests		**7,729**	4,718
Total equity		**1,428,703**	1,334,829

		As at 31 December	
		2016	2015
	Note(s)	**HKD'000**	HKD'000
LIABILITIES			
Non-current liabilities			
Borrowings	26	**29,082**	–
Deferred tax liabilities	27	**3,186**	–
Deferred government grants	24	**30,484**	15,852
		62,752	15,852
Current liabilities			
Trade and other payables	25	**290,111**	340,897
Current income tax liabilities		**20,767**	3,141
Other current liabilities		**–**	3,817
Borrowings	26	**684,298**	74,429
		995,176	422,284
Total liabilities		**1,057,928**	438,136
Total equity and liabilities		**2,486,631**	1,772,965

The notes on pages 95 to 171 are an integral part of these consolidated financial statements.

The financial statements on pages 88 to 171 were approved by the Board of Directors on 14 March 2017 and were signed on its behalf.

Na Qinglin
Director

Tam Man Chi
Director

Consolidated Statement of Profit or Loss — by Function of Expense

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

		Year ended 31 December	
	Note(s)	2016 HKD'000	2015 HKD'000
Revenue	5	**1,598,319**	1,135,495
Cost of sales	29	**(1,028,634)**	(772,938)
Gross profit		**569,685**	362,557
Other gains — net	28	**21,248**	36,895
Selling and marketing costs	29	**(63,408)**	(49,450)
Research and development expenses	29	**(187,812)**	(135,080)
Administrative expenses	29	**(177,501)**	(134,024)
Operating profit		**162,212**	80,898
Finance income	31	**9,160**	9,448
Finance expenses	31	**(15,556)**	(5,676)
Finance (expenses)/income — net	31	**(6,396)**	3,772
Share of losses of investments accounted for using equity method	14	**(1,450)**	(2,592)
Profit before income tax		**154,366**	82,078
Income tax expenses	32	**(25,561)**	(2,829)
Profit for the year		**128,805**	79,249
Profit attributable to:			
Owners of the Company		**130,603**	82,535
Non-controlling interests		**(1,798)**	(3,286)
		128,805	79,249
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
Basic	34	**0.18**	0.12
Diluted	34	**0.18**	0.12
Dividend		**–**	–

The notes on pages 95 to 171 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	
	2016	2015
	HKD'000	HKD'000
Profit for the year	**128,805**	79,249
Other comprehensive income		
Items that may be reclassified to profit or loss		
Transfer of reserves to income statement upon disposal of investments accounted for using equity method	**86**	–
Share of other comprehensive loss of investment accounted for using equity method	**–**	(53)
Currency translation differences	**(73,887)**	(72,909)
Other comprehensive income for the year	**(73,801)**	(72,962)
Total comprehensive income for the year	**55,004**	6,287
Attributable to:		
— Owners of the Company	**56,015**	9,821
— Non-controlling interests	**(1,011)**	(3,534)
Total comprehensive income for the year	**55,004**	6,287

The notes on pages 95 to 171 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 20) HKD'000	Share premium (Note 20) HKD'000	Treasury shares (Note 20) HKD'000	Other reserves (Note 21) HKD'000	Retained earnings (Note 23) 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 owners in their capacity as owners								
Share option scheme — value of services (Note 30)	–	–	–	7,546	–	7,546	–	7,546
Share award schemes — value of services (Note 30)	–	–	–	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 20)	–	–	(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

	Attributable to equity holders of the Company							
	Share capital (Note 20) HKD'000	Share premium (Note 20) HKD'000	Treasury shares (Note 20) HKD'000	Other reserves (Note 21) HKD'000	Retained earnings (Note 23) HKD'000	Total HKD'000	Non-controlling interests HKD'000	Total equity HKD'000
Balance at 1 January 2016	7,319	807,830	(74,927)	51,373	538,516	1,330,111	4,718	1,334,829
Comprehensive income								
Profit for the year	–	–	–	–	130,603	130,603	(1,798)	128,805
Other comprehensive income								
Reversal of recognised other comprehensive loss in a joint venture investment upon disposal	–	–	–	86	–	86	–	86
Currency translation differences	–	–	–	(74,674)	–	(74,674)	787	(73,887)
Total comprehensive income	–	–	–	(74,588)	130,603	56,015	(1,011)	55,004
Transactions with owners in their capacity as owners								
Share option scheme — value of services (Note 30)	–	–	–	423	–	423	–	423
Share award schemes — value of services (Note 30)	–	–	–	16,659	–	16,659	–	16,659
Exercise of share options	95	17,671	–	–	–	17,766	–	17,766
Non-controlling interests arising on establishment of new subsidiary	–	–	–	–	–	–	4,022	4,022
Balance at 31 December 2016	7,414	825,501	(74,927)	(6,133)	669,119	1,420,974	7,729	1,428,703

The notes on pages 95 to 171 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

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

		Year ended 31 December	
	Note(s)	2016 HKD'000	2015 HKD'000
Cash flows (used in)/from operating activities			
Cash generated (used in)/from operating activities	35	(54,461)	128,808
Tax refund		3,426	2,399
Income tax paid		(8,794)	(3,162)
Net cash (used in)/from operating activities		(59,829)	128,045
Cash flows from investing activities			
Received from investment on subsidiaries		4,022	–
Restricted bank deposits	19	(348,734)	–
Business combination	37	(7,273)	–
Acquisition of subsidiaries, net of cash acquired		–	(15,410)
Purchases of property, plant and equipment and payments for construction-in-progress		(114,749)	(153,407)
Purchase of intangible assets		(1,824)	(732)
Proceeds from government grant related to property, plant and equipment	24	18,450	5,729
Capital expenditure for capitalised development costs		(14,599)	(19,894)
Interest received		2,451	2,958
Proceeds from disposal of fixed assets and intangible assets		838	410
Decrease of term deposits with initial term of over three months		25,782	65,603
Purchase of available-for-sale financial assets	11	(3,018)	(1,241)
Prepayment for equity investment	8	(116,328)	–
Net cash used in investing activities		(554,982)	(115,984)
Cash flows from financing activities			
Proceed from borrowings		819,243	127,977
Borrowings repayments		(180,292)	(53,923)
Repurchase of own shares		–	(3,068)
Proceeds from exercise of share options		17,766	7,821
Payments for purchase of shares for restricted share award schemes		–	(18,033)
Net cash from financing activities		656,717	60,774
Net increase in cash and cash equivalents		41,906	72,835
Cash and cash equivalents at the beginning of the year		133,910	69,514
Exchange difference		(6,504)	(8,439)
Cash and cash equivalents at the end of the year		169,312	133,910

The notes on pages 95 to 171 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") was incorporated in the Cayman Islands on 12 November 2009, as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company is an investment holding company and has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") since 29 April 2010 (the "IPO"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company and its subsidiaries (the "Group") are principally engaged in the design, manufacturing and sale of optical networking subcomponents, components, modules, and subsystem used in high-speed telecommunications and data communications. In 2016, the Group established four new subsidiaries (Note 13) and acquired a business unit (Note 37) which are principally engaged in similar products as the Group as well as fibre optics components and fibre 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 14 March 2017.

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 all applicable Hong Kong Financial Reporting Standards (the "HKFRS") and requirements of the Hong Kong Companies ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

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.

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

(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 2016:

- *Accounting for acquisitions of interests in joint operations — Amendments to HKFRS 11*
- *Clarification of acceptable methods of depreciation and amortisation — Amendments to HKAS 16 and HKAS 38*
- Annual improvements to HKFRSs 2012–2014 cycle, and
- *Disclosure initiative — amendments to HKAS 1.*

The adoption of these amendments did not have any impact on the current period or any prior period.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

HKFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, financial instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The other financial assets held by the group include:

- *equity investment currently classified as AFS for which a FVOCI election is available*
- *equity instruments currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under HKFRS 9*

Accordingly, the group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

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 standards and interpretations not yet adopted *(Continued)*

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

HKFRS 15, 'Revenue from contracts with customers'

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

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 standards and interpretations not yet adopted *(Continued)*

Management is currently assessing the effects of applying the new standard on the group's financial statements and has identified the following areas that are likely to be affected:

- revenue from service — the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.
- accounting for certain costs incurred in fulfilling a contract — certain costs which are currently expensed may need to be recognised as an asset under HKFRS 15, and
- rights of return HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the group does not intend to adopt the standard before its effective date.

HKFRS 16, 'Leases'

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of HK$27,704,000, see Note 36. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the group.

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 combination

The Group applies the acquisition method to account for business combination. 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 in profit or loss. 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 statement of profit or loss.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation (Continued)

Business combination *(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 statement of profit or loss, 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.

2 Summary of Significant Accounting Policies *(Continued)*

2.3 Associates *(Continued)*

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 statement of profit or loss.

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 statement of profit or loss.

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, including any other unsecured receivables, 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 statement of profit or loss, 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 statement of profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss in which they are incurred.

Depreciation of property, plant and equipment of all the other entities in the group is calculated using the straight-line method, while most assets of ITF Technologies Inc., comprising 2% of the group's total property, plant and equipment, are amortized using a declining balance, 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 statement of profit or loss.

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) Trademark and license

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 Summary of Significant Accounting Policies *(Continued)*

2.9 Intangible Assets *(Continued)*

(e) Development Expenditure

Research and development costs that are directly attributable to the design and testing of identifiable and unique optical products are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the product so that it will be available for sale in the future;
- Management intends to complete the product and sell it;
- There is an ability to use or sell the product;
- It can be demonstrated how the product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to sell the product are available;
- The expenditure attributable to the product during its development can be reliably measured.

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 recognized as intangible assets on the consolidated balance sheet and amortized from the date which the project ready for use on a straight-line basis over its useful life, not exceeding six years. Those capitalized development costs have not reached the intended use are tested for impairment annually.

(f) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method from three to five years over the expected life of the customer relationship.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.10 Impairment of Non-financial Assets

Research and development expenditures, and 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.

2.11 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 Summary of Significant Accounting Policies *(Continued)*

2.11 Financial Assets *(Continued)*

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 statement of profit or loss. 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.

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 statement of profit or loss 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 statement of profit or loss 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.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.12 Impairment of Financial Assets *(Continued)*

(a) Assets carried at amortized cost (Continued)

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 statement of profit or loss. 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 statement of profit or loss.

(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 reclassified 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 statement of profit or loss.

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 reclassified from equity and recognized in profit or loss. Impairment losses recognized in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

2 Summary of Significant Accounting Policies *(Continued)*

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. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges for purchases of raw materials.

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.

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. See Note 2.11.2 for further information about the group's accounting for trade receivables and Note 2.12 for a description of the group's impairment policies. 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 statement of profit or loss. 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 statement of profit or loss.

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.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

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".

2.19 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 statement of profit or loss 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.

2 Summary of Significant Accounting Policies *(Continued)*

2.20 Borrowings *(Continued)*

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

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.

2.22 Current and Deferred Income Tax

The tax expenses for the period comprise current and deferred tax. Tax is recognized in the consolidated statement of profit or loss, 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.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.22 Current and Deferred Income Tax *(Continued)*

(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) 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 statement of profit or loss as incurred.

2 Summary of Significant Accounting Policies *(Continued)*

2.23 Employee Benefits *(Continued)*

(b) *Share-based compensation benefits*

The Group operates a number of share-based compensation plans (including share option schemes and share award schemes), more details of the plans are described in 2.24 of Note 2.

(c) *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.

2.24 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).

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.24 Share-based Payments *(Continued)*

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

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 statement of profit or loss, 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.

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.

2 Summary of Significant Accounting Policies *(Continued)*

2.24 Share-based Payments *(Continued)*

(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 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 recognised when a group entity has delivered products to the customers.

(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.

2.26 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 statement of profit or loss on a straight-line basis over the period of the lease.

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies *(Continued)*

2.27 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 statement of profit or loss 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 statement of profit or loss on a straight- line basis over the expected lives of the related assets.

2.28 Dividend Distribution

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

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.

3 Financial Risk Management *(Continued)*

3.1 Financial Risk Factor *(Continued)*

(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 2016, if USD had weakened/strengthened by 5% against RMB with all other variables held constant, profit before tax for the year would have been HKD14,637,000 (2015: HKD3,900,000) 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 2016, the Group did not hold any equity securities that were traded publicly. Accordingly, it was not exposed to commodity price risk (2015: none) as at 31 December 2016.

(iii) Cash flow and fair value interest rate risk

As at 31 December 2016, except for the term deposits and pledged bank deposits of HKD364,395,000 (2015: HKD41,443,000), which were held at fixed interest rate of 2.06% per annum (2015: 1.76% 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 (2015: 0.01% to 0.35%). Borrowings at variable rates at 0.69% to 5.22% (2015: 2.95% to 2.98%), 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.

Notes to the Consolidated Financial Statements

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.

3 Financial Risk Management *(Continued)*

3.1 Financial Risk Factor *(Continued)*

(c) Liquidity Risk (Continued)

	Less than 1 year HKD'000
At 31 December 2016	
Borrowings (including interests)	**714,355**
Trade and other payables excluding statutory liabilities and advance from customers	**238,352**
	952,707
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

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. The debt-to-equity ratio is calculated by dividing the net debt (total borrowings net of cash and cash equivalents) by the total owners' equity.

The Group has net debt of HKD544,068,000 as at 31 December 2016 (2015: nil).

Notes to the Consolidated Financial Statements

3 Financial Risk Management *(Continued)*

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 2016.

	Level 1 HKD'000	Level 2 HKD'000	Level 3 HKD'000	Total HKD'000
Assets				
Financial products (Note 11)	–	–	3,018	3,018
Financial assets at fair value through profit or loss				
– Derivative financial instruments — Call options for equity investments (Note 12)	–	–	97	97
Financial assets at fair value through profit or loss (Note 18)	–	–	18,394	18,394

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 (Note 12)	–	–	1,322	1,322

3 Financial Risk Management *(Continued)*

3.3 Fair Value Estimation *(Continued)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2016 and 2015.

	Financial assets at fair value through profit or loss	
	2016 HKD'000	2015 HKD'000
At 1 January	**1,322**	2,978
Addition		
— Financial products	**3,018**	–
— Financial assets at fair value through profit or loss	**18,394**	–
Disposal	**(1,225)**	(1,656)
At 31 December	**21,509**	1,322
Total losses for the year included in profit or loss for assets held at the end of the year, under "Other gains — net" (Note 28)	**(1,225)**	(1,656)
Changes in unrealized losses for the year included in profit or loss at the end of the year	**(1,225)**	(1,656)

The fair value of the financial instruments at fair value through profit or loss is estimated with inputs including risk free interest rate, expected volatility, expected dividend yield and underlying share price as at the valuation date (reference to equity transactions with third parties) (Note 18).

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.

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.

(a) 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 2016.

(b) Business combination

Accounting for acquisitions requires the Group to allocate the cost of acquisition to specific assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. In connection with the business combination (Note 37), the Group has undertaken a process to identify all assets and liabilities acquired. Judgements made in identifying all acquired assets and liabilities, determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset's useful lives, could materially impact the calculation of goodwill and amortisation charges in subsequent periods. Estimated fair values are based on information available at the acquisition date and on expectations and assumptions that have been deemed reasonable by management. Determining the estimated useful lives of intangible assets acquired also requires judgement.

5 Segment Information

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

Due to the fact that the Group continued to diversify its product ranges, the senior executive management team review and assess the performance of each individual product or a particular category of products. They assess performance and allocate resources according to the total revenues derived from each customer. Gross/net profits and costs are managed in aggregate on entity level, not on individual product or customer level. The CODM considers that the Group has only one 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 2016 (2015: same).

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

	2016 HKD'000	2015 HKD'000
The PRC	**742,025**	534,761
Europe	**433,801**	345,254
North America	**242,614**	150,080
Other Asian countries excluding the PRC	**179,879**	105,400
	1,598,319	1,135,495

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 31 December 2016 and 2015 are as follows:

	2016 HKD'000	2015 HKD'000
The PRC	**732,863**	724,706
Hong Kong	**116,384**	15,695
North America	**96,262**	66,368
	945,509	806,769

Notes to the Consolidated Financial Statements

5 Segment Information *(Continued)*

(c) Revenue of approximately HKD231,450,000 (2015: HKD169,623,000) and trade receivables of approximately HKD68,938,000 (2015: HKD51,695,000) are derived from one (2015: one) external customer, which are more than 10% of the Group's total revenue and total trade receivables.

During the year ended 31 December 2016, revenue of approximately HKD437,897,000 (2015: HKD318,793,000) was derived from three customers, which comprised 27% (2015: 28%) 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.

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:

	2016 HKD'000	2015 HKD'000
Outside of Hong Kong		
— Lease of 50 years	**23,826**	26,067

	2016 HKD'000	2015 HKD'000
At 1 January		
Opening net book amount	**26,067**	28,353
Amortization charge	**(609)**	(656)
Translation difference	**(1,632)**	(1,630)
Closing net book amount	**23,826**	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 2016 was 40 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 2015						
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
Transfers	93,832	971	–	–	(94,803)	–
Additions	–	31,630	–	37,636	66,606	135,872
Acquisition of subsidiaries	–	11,902	359	3,535	–	15,796
Disposals	–	–	(374)	(12)	–	(386)
Depreciation charge	(8,977)	(12,130)	(314)	(33,372)	–	(54,793)
Currency translation differences	(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	107,155	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
Year ended 31 December 2016						
Opening net book amount	436,913	65,898	506	89,310	105,949	698,576
Transfers	45,905	1,114	–	–	(47,019)	–
Additions	–	36,528	321	29,401	35,690	101,940
Disposals	–	(553)	–	(832)	–	(1,385)
Depreciation charge	(10,199)	(17,039)	(218)	(28,665)	–	(56,121)
Currency translation differences	(27,373)	(2,901)	(17)	(4,169)	(6,715)	(41,175)
Closing net book amount	445,246	83,047	592	85,045	87,905	701,835
At 31 December 2016						
Cost	475,781	156,095	1,571	301,139	87,905	1,022,491
Accumulated depreciation	(30,535)	(73,048)	(979)	(216,094)	–	(320,656)
Net book amount	445,246	83,047	592	85,045	87,905	701,835

Notes to the Consolidated Financial Statements

7 Property, Plant and Equipment *(Continued)*

(a) Depreciation expenses have been charged to the consolidated statement of profit or loss as follows:

	2016 HKD'000	2015 HKD'000
Cost of sales	34,007	34,995
Selling and marketing costs	200	200
Research and development expenses	14,491	12,091
Administrative expenses	7,423	7,507
	56,121	54,793

(b) For the year ended 31 December 2016, lease rentals amounting to HKD5,078,000 (2015: HKD3,771,000) for leases of office buildings and plant of the Group had been included in the consolidated statement of profit or loss.

(c) Construction in progress as at 31 December 2016 mainly comprised costs incurred for a new production plant under construction, which is located in Pingshan, Shenzhen, the PRC.

(d) As at 31 December 2016, The Group is in the process of applying the building ownership certificate of certain buildings with the aggregated carrying amounts amounted to HKD445,246,000 (31 December 2015: HKD436,913,000).

8 Other Non-Current Assets

	2016 HKD'000	2015 HKD'000
Prepayment for purchase of property, plant and equipment	15,292	1,171
Prepayment for equity investment (a)	116,328	–
Other prepayments	124	124
	131,744	1,295

(a) The Group paid a deposit amounting to HKD116,328,000 to acquire 1,000 shares of 3SP Technologies, representing approximately 100% issued share capital. The completion of the acquisition is subject to certain prerequisites which have not been satisfied as at 31 December, 2016.

9 Intangible Assets

	Goodwill (a) HKD'000	License and Trademark HKD'000	Development costs (b) HKD'000	Patent HKD'000	Computer Software HKD'000	Customer Relationships HKD'000	Order Backlog HKD'000	Total HKD'000
At 1 January 2015								
Cost	–	–	9,197	210	488	–	–	9,895
Accumulated amortization	–	–	–	(180)	(458)	–	–	(638)
Net book amount	–	–	9,197	30	30	–	–	9,257
Year ended 31 December 2015								
Opening net book amount	–	–	9,197	30	30	–	–	9,257
Acquisition of subsidiaries	24,064	59	10,241	2,396	3,772	–	–	40,532
Addition	–	–	19,357	–	731	–	–	20,088
Amortization charge	–	(7)	(2,740)	(332)	(1,342)	–	–	(4,421)
Translation difference	–	(4)	(72)	(78)	(24)	–	–	(178)
Closing net book amount	24,064	48	35,983	2,016	3,167	–	–	65,278
At 31 December 2015								
Cost	24,064	55	38,795	2,409	4,671	–	–	69,994
Accumulated amortization	–	(7)	(2,812)	(393)	(1,504)	–	–	(4,716)
Net book amount	24,064	48	35,983	2,016	3,167	–	–	65,278
Year ended 31 December 2016								
Opening net book amount	24,064	48	35,983	2,016	3,167	–	–	65,278
Addition from business combination (Note 37)	5,860	–	–	–	–	9,019	2,334	17,213
Addition	–	–	14,599	–	1,824	–	–	16,423
Disposal	–	(48)	–	–	–	–	–	(48)
Impairment (Note 29)	–	–	(4,378)	–	–	–	–	(4,378)
Amortization charge	–	–	(3,427)	(270)	(1,233)	–	–	(4,930)
Translation difference	–	–	(1,527)	54	19	–	–	(1,454)
Closing net book amount	29,924	–	41,250	1,800	3,777	9,019	2,334	88,104
At 31 December 2016								
Cost	29,924	–	51,867	2,463	6,513	9,019	2,334	102,120
Accumulated amortization and impairment	–	–	(10,617)	(663)	(2,736)	–	–	(14,016)
Net book amount	29,924	–	41,250	1,800	3,777	9,019	2,334	88,104

The amortization charge has all been included in cost of sales and administrative expenses in the consolidated statement of profit or loss (2015: same).

Notes to the Consolidated Financial Statements

9 Intangible Assets *(Continued)*

(a) Impairment tests for goodwill

Goodwill was acquired through business combination of Passive Optics Business Unit of Titan Photonics, Inc. and the acquisition of AtrIC, details of which were as below:

	2016 HKD'000	2015 HKD'000
At 1 January	**24,064**	–
Addition	**5,860**	24,064
At 31 December	**29,924**	24,064

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

The recoverable amount of CGUs is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets prepared by management covering a five-year period. Cash flows beyond the five-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 are as follows:

	2016		2015
	Titan	ArtIC	ArtIC
Growth rate	**2%**	**3%**	**3%**
Discount rate	**19%**	**28%**	**28%**

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

Based on the assessment of the cash flow projection, the Directors considered that there is no impairment of goodwill as at 31 December 2015 and 2016.

(b) Research and development costs amounting to HKD202,411,000 were incurred for the year ended 31 December 2016 (2015: HKD154,974,000), of which cost of HKD14,599,000 (2015: HKD19,894,000) relating to development of design and testing of identifiable and unique optical products were capitalised, with remaining balance being charged as expense in the consolidated statement of profit or loss.

Capitalized expenditure of development costs were disclosed in other non-current assets in prior year have been reclassified with "Intangible assets", amounting to HKD23,890,000 in order to conform with current year presentation.

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 2016:				
Derivative financial instruments (Note 12)	–	97	–	97
Available-for-sale financial assets (Note 11)	–	–	15,290	15,290
Trade and other receivables excluding prepayment (Note 16)	661,311	–	–	661,311
Financial assets at fair value through profit and loss (Note 18)	–	18,394	–	18,394
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 19)	533,707	–	–	533,707
Total	1,195,018	18,491	15,290	1,228,799
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 (Note 16)	521,473	–	–	521,473
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 19)	175,353	–	–	175,353
Total	696,826	1,322	12,272	710,420

Notes to the Consolidated Financial Statements

10 Financial Instruments by Category *(Continued)*

	Financial liabilities at amortized cost	
	2016 HKD'000	2015 HKD'000
Liabilities		
At 31 December 2016:		
Borrowings (Note 26)	**713,380**	74,429
Trade and other payables excluding statutory liabilities and advance from customers (Note 25)	**238,352**	300,378
Other current liability	**–**	3,817
	951,732	378,624

11 Available-for-sale Financial Assets

	2016 HKD'000	2015 HKD'000
At 1 January	**12,272**	11,031
Additions (a)	**3,018**	1,241
At 31 December	**15,290**	12,272

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.

(a) For the year ended 31 December 2016, the Group bought financial products of HKD3,018,000. All financial products were redeemed in January 2017.

12 Derivative Financial Instruments

	2016 Assets HKD'000	2015 Assets HKD'000
Call option embedded in investments accounted for using equity method (Note 14)	–	1,225
Call options embedded in investment in a subsidiary	97	97
	97	1,322

The movement of above call options is set out below:

	2016 HKD'000	2015 HKD'000
At 1 January	1,322	2,978
Disposal	(1,225)	(1,656)
At 31 December	97	1,322

13 Subsidiaries

The following is a list of the principal subsidiaries at 31 December 2016:

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 Jun 2012	Hong Kong	HKD10,000	–	100%	Investment holding

Notes to the Consolidated Financial Statements

13 Subsidiaries *(Continued)*

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 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") (b)	23 September 2013	Canada	HKD24,180,000	–	45.7%	Design, and development of optical component products, Canada
ITF Technologies Inc. ("ITF")	25 May 1995	Canada	USD5,000,000	–	100%	Manufacturing and distributing fiber optics components and fiber sensors
O-Net Automation Technologies Holdings Limited	4 August 2016	Hong Kong	–	–	100%	Investment holding
O-Net Coating and Materials Technologies Holdings Limited	4 August 2016	Hong Kong	–	–	100%	Investment holding
O-Net Coating and Material Technologies (HK) Limited	22 August 2016	Hong Kong	HKD100,000	–	100%	Investment holding
Angzhan New Material Technology (Ningbo) Co. Ltd	11 October 2016	Ningbo, the PRC	RMB10,000,000	–	65%	Design, processing, manufacturing, wholesale and retail of ceramic materials, Ningbo, the PRC

13 Subsidiaries *(Continued)*

(a) Consolidation of structured entity

Due to the implementation of the restricted share award schemes of the Group mentioned in Note 22(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 2016, the Company contributed nil (2015: HKD18,560,000) to O-net Share Award Plan Limited for financing its acquisition of the Company's shares.

(b) The Group had over 50% of voting right in ArtIC and it had control over ArtIC according to the shareholders agreement.

14 Investments Accounted for Using Equity Method

The amounts recognized in the balance sheet are as follows:

	2016 HKD'000	2015 HKD'000
A joint venture (a)	**–**	15,553
At 31 December	**–**	15,553

The amounts recognized in the statement of profit or loss are as follows:

	2016 HKD'000	2015 HKD'000
Share of loss from —		
An associate	**–**	(529)
A joint venture	**(1,450)**	(2,063)
For the year ended 31 December	**(1,450)**	(2,592)

Notes to the Consolidated Financial Statements

14 Investments Accounted for Using Equity Method *(Continued)*

(a) Investment in a Joint Venture

	2016 HKD'000	2015 HKD'000
At 1 January	**15,553**	17,669
Share of loss	**(1,450)**	(2,063)
Other comprehensive income	**78**	(53)
Disposal	**(14,181)**	–
At 31 December	**–**	15,553

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 ("Original Call Option") 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 in 2015.

14 Investments Accounted for Using Equity Method *(Continued)*

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

According to a share swap agreement dated 19 October 2016 ("Share Swap Agreement"), the Group transferred its shareholding interests in O-Net WaveTouch to WaveTouch Group Limited ("WaveTouch Group"), a company located in UK, in return for WaveTouch Group's 8,000,000 shares. As a result of the share swap, the investment in O-Net WaveTouch and Original Call Option was disposed. In return, the Group obtained investment in WaveTouch Group (approximately 33% of interests) and a call option to acquire additional 7,000,000 shares in WaveTouch Group ("Revised Call option"). Pursuant to the Share Swap Agreement, the Group has also granted PASINIKA SARL ("PKA"), a third party, a call option ("Call Option") to buy the Group's interest in WaveTouch Group (including the interests and Revised Call Option), at a consideration of a cash of USD3,000,000 or certain interests in Windar Photonics PLC ("Windar"), a UK listed company, with the market value not less than USD2,500,000, or a cash payment of USD1,500,000 and 750,000 shares of Windar. The certain interests in Windar will be satisfied by 1,000,001 to 2,000,000 shares of Windar dependent upon the price of Windar's share. At the same time, PKA granted the Group a put option ("Put Option") to sell the Group's interests in WaveTouch Group (including the interest and Call Option), at a consideration of 1,000,000 Windar shares if the market value of such Windar Shares is not less than USD2,500,000, or up to 2,000,000 Windar shares if the market value of 1,000,000 Windar Shares is less than USD2,500,000. The Call Option and Put Option could be exercised any time during the period from 1 October 2016 to 30 June 2018. Given the Group has no significant influence on WaveTouch Group, and it managed the investment in WaveTouch Group on a fair value basis, the Group designated the investment in WaveTouch Group together with other financial assets related to the Share Swap Agreement as financials assets at fair value through profit or loss (Note 18). A disposal gain regarding the investment in O-Net WaveTouch amounting to HKD2,980,000 (including HKD4,205,000 gain on disposal of investments accounted for using equity method and HKD1,225,000 loss on disposal of call option in equity investment) was recognised in 2016.

15 Inventories

	2016 HKD'000	2015 HKD'000
Cost:		
Raw materials	**167,579**	114,996
Work-in-progress	**69,469**	58,770
Finished goods	**52,101**	62,219
	289,149	235,985
Less: provision for write-down of inventories to net realizable values	**(19,370)**	(8,447)
	269,779	227,538

Notes to the Consolidated Financial Statements

15 Inventories *(Continued)*

For the year ended 31 December 2016, 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 HKD806,135,000 (2015: HKD574,413,000).

For the year ended 31 December 2016, the Group made provision for write-down of inventories of HKD11,796,000 (2015: reversed inventory write-down of HKD895,000).

16 Trade and Other Receivables

	2016 HKD'000	2015 HKD'000
Trade receivables (a)	461,778	396,642
Less: provision for impairment of receivables (b)	(1,106)	(1,639)
Trade receivables — net	460,672	395,003
Amounts due from related parties (a) (Note 38(d))	393	7,897
Bills receivable (c)	148,873	75,711
Prepayments	12,062	15,630
Interest receivables	1,675	257
Other receivables (d)	49,698	42,605
	673,373	537,103
Less non-current portion: other receivables (d)	(26,139)	(27,908)
Current portion	647,234	509,195

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 2016, the fair value of trade and other receivables of the Group approximated their carrying amounts (2015: same).

16 Trade and Other Receivables *(Continued)*

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

	2016 HKD'000	2015 HKD'000
RMB	**367,582**	410,862
USD	**291,801**	121,594
HKD	**7,578**	17
CAD	**6,157**	3,241
Others	**255**	1,389
	673,373	537,103

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

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:

	2016 HKD'000	2015 HKD'000
Within 30 days	**194,624**	155,626
31 to 60 days	**139,292**	94,918
61 to 90 days	**82,839**	90,386
91 to 180 days	**38,240**	41,432
181 to 365 days	**5,225**	13,649
Over 365 days	**1,653**	4,037
	461,873	400,048

At 31 December 2016, trade receivables of HKD105,627,000 (2015: HKD82,400,000) 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.

Notes to the Consolidated Financial Statements

16 Trade and Other Receivables *(Continued)*

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

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

	2016 HKD'000	2015 HKD'000
Past due 1 to 90 days	94,119	64,720
Past due 91 to 180 days	5,928	5,042
Past due 181 to 365 days	4,038	9,887
Past due over 365 days	1,542	2,751
	105,627	82,400

At 31 December 2016, trade receivables of HKD1,106,000 (2015: HKD1,639,000) 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:

	2016 HKD'000	2015 HKD'000
Past due over 365 days	1,106	1,639

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

	2016 HKD'000	2015 HKD'000
At 1 January	1,639	727
Provision of impairment	49	990
Write-off	(486)	–
Translation difference	(96)	(78)
At 31 December	1,106	1,639

16 Trade and Other Receivables *(Continued)*

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

	2016 HKD'000	2015 HKD'000
Within 30 days	21,269	20,546
31 to 90 days	42,620	23,007
91 to 180 days	79,206	32,158
181 days to 365 days	5,778	–
	148,873	75,711

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

(d) Other non-current receivables

Included in the other receivable is a balance due from Integrated Photonics, Inc. ("IPI"), a third-party supplier of the Group amounting to HKD26,139,000 (2015: HKD27,908,000), 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

	2016 HKD'000	2015 HKD'000
Deferred expenses	6,487	–
Value-added tax to be recovered	11,590	2,172
	18,077	2,172

Notes to the Consolidated Financial Statements

18 Financial Assets at Fair Value Through Profit or Loss

	2016 HKD'000	2015 HKD'000
Fair value through profit and loss (Note 14)	18,394	–

Financial assets at fair value through profit or loss are presented within 'investing activities' in the consolidated statement of cash flows.

Changes in fair values of financial assets at fair value through profit or loss are recorded in 'other gains — net' in the consolidated statement of profit or loss.

The fair value of the financial assets at fair value through profit or loss is estimated with inputs as follows:

	2016
Risk-free rate	0.10%
Expected volatility	53.21%–56.5%
Expected dividend yield	0.00%

19 Cash and Cash Equivalents, Term Deposits With Initial Term of Over Three Months and Pledged Bank Deposits

	2016 HKD'000	2015 HKD'000
Cash and cash equivalents	169,312	133,910
Term deposits with initial term of over three months	10,026	35,808
Pledged bank deposits (a)	354,369	5,635
	533,707	175,353

(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 bank borrowings.

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

	2016 HKD'000	2015 HKD'000
RMB	288,510	105,275
USD	229,214	57,740
Others	15,983	12,338
	533,707	175,353

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 2016 was 2.06% (2015: 1.76%).

Notes to the Consolidated Financial Statements

20 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 2015	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)
Exercise of share options	**9,455,000**	**95**	**17,671**	**–**
At 31 December 2016	**741,386,240**	**7,414**	**825,501**	**(74,927)**

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

(b) During the year ended 31 December 2015, the Company issued 26,000,000 ordinary shares for the restricted share award scheme 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 ordinary shares of the Company for a total consideration of HKD18,033,000 .

21 Other Reserves

	Capital redemption reserve HKD'000	Share-based compensation HKD'000	Capital reserve arising from Reorganization HKD'000	Currency translation reserve HKD'000	Share of other comprehensive of investment in joint venture HKD'000	Total HKD'000
At 1 January 2015	1,305	106,973	(85,421)	89,148	(33)	111,972
Share option schemes — value of services	–	7,546	–	–	–	7,546
Share award schemes — value of services	–	4,544	–	–	–	4,544
Repurchase of shares	25	–	–	–	–	25
Currency translation differences	–	–	–	(72,661)	–	(72,661)
Share of other comprehensive income of joint venture	–	–	–	–	(53)	(53)
At 31 December 2015	1,330	119,063	(85,421)	16,487	(86)	51,373
At 1 January 2016	**1,330**	**119,063**	**(85,421)**	**16,487**	**(86)**	**51,373**
Share option schemes — value of services	**–**	**423**	**–**	**–**	**–**	**423**
Share award schemes — value of services	**–**	**16,659**	**–**	**–**	**–**	**16,659**
Reversal of recognized other comprehensive loss in a joint venture investment upon disposal	**–**	**–**	**–**	**–**	**86**	**86**
Currency translation differences	**–**	**–**	**–**	**(74,674)**	**–**	**(74,674)**
At 31 December 2016	**1,330**	**136,145**	**(85,421)**	**(58,187)**	**–**	**(6,133)**

Notes to the Consolidated Financial Statements

22 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 2016, the outstanding number of share options under the pre-IPO share option scheme was nil (2015: 422,152 shares, with the expiry dates on October 2016).

(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.

22 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 2016	Exercise price	Vesting date
10 October 2011	Tranches 1, 2, 3, 4 & 5: 800,000 (Total:4,000,000)	3,800,000	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)	10,409,000	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)	0	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

22 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 2016	Exercise price	Vesting date
22 April 2013	Tranche 1: 200,000 Tranche 2: 2,350,000 Tranche 3: 350,000 (Total: 2,900,000)	2,350,000	HKD1.680	Tranche 1 (for certain employees): vesting period commences at 12 Feb 2014, equally over a period of 5 years. Tranche 2 (for certain employees): vesting period commences at 3 Mar 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 Sep 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 Sep 2014, equally over a period of 5 years.
25 Sep 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 Aug 2014, equally over a period of 5 years.
16 Oct 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 Oct 2014, equally over a period of 4 years.
8 Nov 2013	Tranches 1, 2, 3, 4 & 5: 2,060,000 (Total: 10,300,000)	4,063,000	HKD1.484	Tranches 1, 2, 3, 4& 5 (for certain employees): vesting period commences at 8 Nov 2014, equally over a period of 5 years.
9 April 2014	Tranches 1, 2, 3, 4 & 5: 374,000 (Total: 1,870,000)	1,127,000	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.
		28,099,000		

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

22 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:

	2016		2015	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**1.80**	**38,959**	1.76	49,115
Granted	**–**	**–**	–	–
Forfeited	**1.53**	**(983)**	1.58	(5,430)
Exercised	**1.88**	**(9,455)**	1.85	(4,233)
Expired	**–**	**(422)**	–	(493)
At 31 December	**1.80**	**28,099**	1.80	38,959

As at 31 December 2016, out of the 28,099,000 outstanding options (2015: 38,959,000 shares) 23,179,000 options (2015: 28,253,000 shares) were exercisable. 9,455,000 options were exercised in 2016 (2015: 4,233,000 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 2016**	**Options (thousands)**	
		2016	2015
2016*	–	**–**	422
2020	1.80	**28,099**	38,537

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

(v) Fair value of options

No share options were granted during 2016 and 2015. The weighted average fair value of options granted was determined using the Trinomial valuation model. See Note 28 for the total expense recognized in the income statement for share options granted to directors.

Notes to the Consolidated Financial Statements

22 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 years ended 31 December 2016 are as follows:

	Number of shares held for the Restricted Share Award Schemes	Number of awarded shares
At 1 January 2016	36,074,000	25,045,000
Granted	(16,915,000)	16,915,000
At 31 December 2016	**19,159,000**	**41,960,000**

22 Share-Based Payments *(Continued)*

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

The award shares in the restricted share award scheme ("Award Shares") were divided into 4 or 5 tranches on an equal basis as at their grant date. The first tranche can be after 12 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.

Movements of the Award Shares granted to the employees for the years ended 31 December 2016 are as follows:

	Number of Shares (thousand)	Share price HKD	Fair value HKD'000
At 1 January 2016	25,045	1.76	44,101
Award Shares Granted to the employees on 1 March 2016	1,195	1.91	2,282
Award Shares Granted to the employees on 1 August 2016	15,070	2.95	44,457
Award Shares Granted to the employees on 1 November 2016	500	4.28	2,140
Award Shares Granted to the employees on 4 November 2016	150	4.13	620
At 31 December 2016	**41,960**	**2.23**	**93,600**

The amounts of share-based compensation recognized as expenses with a corresponding credit to reserves of the Group. There is no award shares granted to a director of the Company.

23 Retained Earnings

	2016 HKD'000	2015 HKD'000
At 1 January	**538,516**	456,006
Repurchase and cancellation of shares	**–**	(25)
Profit for the year	**130,603**	82,535
At 31 December	**669,119**	538,516

Notes to the Consolidated Financial Statements

24 Deferred Government Grants

	2016 HKD'000	2015 HKD'000
At 1 January	**15,852**	14,176
Receipt of grant during the year (a)	**18,450**	5,729
Credited to statement of profit or loss	**(2,905)**	(3,362)
Currency translation difference	**(913)**	(691)
At 31 December	**30,484**	15,852

(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 RMB16,504,000 (equivalent to HKD18,450,000) in 2016 (2015: HKD5,729,000).

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.

25 Trade and Other Payables

	2016 HKD'000	2015 HKD'000
Trade payables (a)	**198,110**	182,594
Bills payable (c)	**–**	95,488
Accrued expenses	**24,650**	13,977
Payroll payables	**44,315**	27,216
Other payables	**15,592**	7,267
Amounts due to related parties (Note 38(d))	**–**	1,052
Advance from customers	**3,663**	3,042
Other taxes payable	**3,781**	10,261
	290,111	340,897

At 31 December 2016, the fair value of trade and other payables of the Group approximated their carrying amounts due to their short maturities (2015: same).

25 Trade and Other Payables *(Continued)*

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

	2016 HKD'000	2015 HKD'000
Within 30 days	**117,992**	95,664
31 days to 60 days	**42,657**	52,799
61 days to 180 days	**29,035**	27,388
181 days to 365 days	**2,734**	2,311
Over 365 days	**5,692**	4,432
	198,110	182,594

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

	2016 HKD'000	2015 HKD'000
RMB	**189,058**	248,648
USD	**83,525**	76,281
CAD	**10,304**	9,476
HKD	**7,133**	5,358
Others	**91**	1,134
	290,111	340,897

(c) Bills payable are with maturity dates between 181 and 365 days. The ageing analysis of bills payable is as follows:

	2016 HKD'000	2015 HKD'000
181 to 365 days	**–**	95,488

At 31 December 2016, the Group has no bills payables (2015: secured by pledged bank deposits of HKD4,965,000 and bills receivables of HKD42,959,000).

Notes to the Consolidated Financial Statements

26 Borrowing

	2016 HKD'000	2015 HKD'000
Non-current		
Bank borrowings, secured	29,082	–
Current		
Bank borrowings, secured	613,039	–
Bank borrowings, unsecured	71,259	74,429
	684,298	74,429
	713,380	74,429

Bank borrowings mature until 2018 and bear average coupons of 3.35% annually (2015: 2.98% annually).

At 31 December 2016, the bank borrowings is secured by pledged bank deposits of HKD354,369,000 and bills receivables of HKD58,505,000.

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair Value	
	2016 HKD'000	2015 HKD'000	2016 HKD'000	2015 HKD'000
Bank borrowings	29,082	–	29,854	–

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 3.28% (2015: nil) and are within level 2 of the fair value hierarchy.

26 Borrowing *(Continued)*

The carrying amounts of the group's borrowings are denominated in the following currencies:

	2016 HKD'000	2015 HKD'000
USD	**407,449**	74,429
RMB	**305,931**	–
	713,380	74,429

The Group has the following undrawn borrowing facilities:

	2016 HKD'000	2015 HKD'000
Fixed rate:		
— Expiring within one year	**27**	–
— Expiring beyond one year	**129,274**	–
	129,301	–

The facilities expiring within one year are annual facilities subject to review at various dates during 2016. The other facilities have been arranged to help finance the proposed expansion of the group's activities in PRC.

Notes to the Consolidated Financial Statements

27 Deferred Income Tax

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

	2016 HKD'000	2015 HKD'000
Deferred income tax assets:		
— to be recovered within 12 months	**9,188**	3,872
— to be recovered after more than 12 months	**3,217**	10,271
	12,405	14,143
Deferred income tax liabilities:		
— to be recovered within 12 months	**1,884**	2,310
— to be recovered after more than 12 months	**1,302**	1,397
	3,186	3,707
Deferred tax assets — net	**9,219**	10,436

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

	2016 HKD'000	2015 HKD'000
Deferred tax assets — net:		
At 1 January	**10,436**	5,936
Business combination	**(1,703)**	–
Acquisition of a subsidiary	**–**	11,061
Credit/(charged) to the consolidated statement of profit or loss (Note 32)	**859**	(6,208)
Translation difference	**(373)**	(353)
At 31 December	**9,219**	10,436

27 Deferred Income Tax *(Continued)*

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets	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	Provision for impairment of development expenditure HKD'000	Accrued expenses HKD'000	Tax loss HKD'000	Total HKD'000
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 statement of profit or loss	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
At 1 January 2016	349	1,441	2,378	–	4,581	5,394	14,143
Credited/(charged) to the consolidated statement of profit or loss	195	1,674	2,422	657	2,323	(2,236)	5,035
Translation difference	(75)	(144)	(227)	(21)	49	(100)	(518)
At 31 December 2016	469	2,971	4,573	636	6,953	3,058	18,660

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 HKD14,331,000 (2015: HKD17,390,000) in respect of losses amounting to HKD49,251,000 (2015: HKD59,384,000) that can be carried forward against future taxable income. Losses amounting to zero(2015: HKD6,956,000), HKD23,003,000 (2015: HKD26,355,000), and HKD18,518,000 (2015: HKD26,074,000), and HKD7,729,000 (2015:Nil) expire in 2018, 2019,2020 and 2021 respectively.

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 2016, deferred income tax liabilities of approximately HKD70,569,000 (2015: HKD56,702,000) had not been recognized for withholding tax that would be payable on the unremitted earnings of approximately HKD706 million (2015: HKD567 million) of the PRC subsidiary. The directors of the PRC subsidiary had resolved not to distribute these earnings in the foreseeable future.

Notes to the Consolidated Financial Statements

27 Deferred Income Tax *(Continued)*

Deferred tax liabilities	Depreciation and amortization of fixed assets and intangible assets HKD'000	Fair value gains HKD'000	Total HKD'000
At 1 January 2015	–	–	–
Acquisition of a subsidiary	–	2,060	2,060
Charged to the consolidated statement of profit or loss	1,719	–	1,719
Translation difference	(26)	(46)	(72)
At 31 December 2015	1,693	2,014	3,707
At 1 January 2016	**1,693**	**2,014**	**3,707**
Business combination (Note 37)	**–**	**1,703**	**1,703**
Charged to the consolidated statement of profit or loss	**4,394**	**(218)**	**4,176**
Translation difference	**(145)**	**–**	**(145)**
At 31 December 2016	**5,942**	**3,499**	**9,441**

28 Other Gains — Net

	2016 HKD'000	2015 HKD'000
Government grants (a)	13,274	5,752
Rental income	1,531	2,455
Gain on sales of scrapped or surplus raw materials	2,440	1,426
(Loss)/gain on disposal of property, plant and equipment — net	(595)	24
Fair value loss/expiry of options	–	(1,656)
Gain on acquisition of a subsidiary	–	21,762
Loss on disposal of call option in equity investment (Note 12)	(1,225)	–
Gain on disposal of investments accounted for using equity method (Note 14)	4,205	–
Gain on re-measurement of previously held interests in an associate upon acquisition as a subsidiary	–	8,997
Others	1,618	(1,865)
	21,248	36,895

(a) Included in the government grant are amortization of deferred government grant of HKD2,905,000 (2015: HKD3,362,000), the remaining was mainly cash received from the Finance Committee of Shenzhen Municipality government and was recognized during the year upon receipt.

Notes to the Consolidated Financial Statements

29 Expenses by Nature

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

	2016 HKD'000	2015 HKD'000
Staff costs — excluding share options granted to directors and employees (Note 30)	414,687	314,887
Share options and share award granted to directors and employees (Note 30)	17,082	12,090
Raw materials consumed (Note 15)	814,376	531,606
Changes in inventories of finished goods and work in progress (Note 15)	(8,241)	42,807
Depreciation (Note 7)	56,121	54,793
Amortization (Note 6, 9)	5,539	5,077
Provision of trade receivable impairment (Note 16(b))	49	990
Provision for write-down of inventories (Note 15)	11,796	895
Impairment loss on development expenditure	4,378	–
Sales commissions	17,486	17,310
Utilities charges	36,701	37,068
Operating lease rental (Note 7(b))	5,078	3,771
Freight charges	24,314	8,155
Auditors' remuneration	4,035	2,702
Professional and consultancy fees	17,795	17,817
Travelling expenses	6,704	7,134
Advertising costs	1,813	1,191
Other tax levies	11,991	22,680
Others	15,651	10,519
	1,457,355	1,091,492

30 Employee Benefit Expense

	2016 HKD'000	2015 HKD'000
Salaries, bonus and other welfares	396,992	298,254
Pension — defined contribution plans	17,695	16,633
Share options granted to directors and employees	423	7,546
Share award granted to employees	16,659	4,544
	431,769	326,977

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 2016 and 2015, 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.

31 Finance Income and Cost

	2016 HKD'000	2015 HKD'000
Finance expense		
— Bank borrowings	(4,702)	(1,454)
— Other bank charges	(10,854)	(4,222)
Total finance expenses	(15,556)	(5,676)
Finance income		
— Interest income derived from bank deposits	3,869	1,393
— Exchange gain	5,291	8,055
Total finance income	9,160	9,448
Net finance income	(6,396)	3,772

Notes to the Consolidated Financial Statements

32 Income Tax Expenses

	2016 HKD'000	2015 HKD'000
Current income tax		
— Hong Kong profits tax (b)	–	(580)
— USA profits tax (c)	3,066	–
— Canada profits tax (d)	918	(2,271)
— PRC enterprise income tax (e)	22,436	1,871
Overprovision in prior years	–	(2,399)
Total current income tax	26,420	(3,379)
Deferred income tax (Note 27)	(859)	6,208
Income tax expenses	25,561	2,829

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

(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%.

32 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:

	2016 HKD'000	2015 HKD'000
Profit before income tax	**154,366**	82,078
Tax calculated at statutory tax rates applicable to entities comprising the Group	**35,757**	7,911
Tax effect of:		
Research and development costs eligible for additional deduction	**(11,238)**	(12,455)
Utilisation of previously unrecognized tax losses	**(1,408)**	–
Recognition of deferred tax assets unrecognised in prior year	**(3,223)**	–
Tax losses of which no deferred income tax asset was recognized	**1,572**	7,541
Income not subject to tax	**(860)**	(622)
Expenses not deductible for tax purposes		
— Share option expenses	**3,632**	2,336
— Others	**1,329**	517
Overprovision in prior years	**–**	(2,399)
Income tax expenses	**25,561**	2,829

33 Dividends

The Board does not recommend any final dividend for year ended 31 December 2016 (2015: none).

Notes to the Consolidated Financial Statements

34 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.

	2016	2015
Profit attributable to equity holders of the Company (HKD'000)	130,603	82,535
Weighted average number of ordinary shares in issue (thousands)	711,010	686,825
Basic EPS (HKD per share)	0.18	0.12

(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 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.

	2016	2015
Profit attributable to equity holders of the Company (HKD'000)	130,603	82,535
Weighted average number of ordinary shares in issue (thousands shares)	711,010	686,825
Adjustments for share options and share award (thousands shares)	25,674	1,883
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	736,684	688,708
Diluted EPS (HKD per share)	0.18	0.12

35 Cash Generated from Operations

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

	2016 HKD'000	2015 HKD'000
Profit before income tax	**154,366**	82,078
Adjustments for:		
Depreciation and amortization (Notes 6, 7, 9)	**61,660**	59,870
Provision for write-down of inventories (Note 15)	**11,796**	895
Impairment provision for doubtful receivables (Note 16)	**49**	990
Impairment on development expenditure	**4,378**	–
Loss/(gain) on disposal of property, plant and equipment	**595**	(24)
Interest income (Note 31)	**(3,869)**	(1,393)
Interest expense (Note 31)	**4,702**	5,676
Share of loss of investments accounted for using equity method (Note 14)	**1,450**	2,592
Loss on disposal of call option in the equity investment (Note 12)	**1,225**	–
Gain on disposal of investments accounted for using equity method (Note 28)	**(4,205)**	–
Fair value of derivative financial instruments (Note 12)	**–**	1,656
Fair value of share options and share award charged to profit or loss (Note 29)	**17,082**	12,090
Gain on acquisition of a subsidiary (Note 28)	**–**	(21,762)
Gain on re-measurement of previously held interests in an associate upon acquisition as a subsidiary (Note 28)	**–**	(8,997)
Changes in working capital:		
— Inventories	**(53,164)**	(19,706)
— Trade and other receivables	**(174,968)**	(118,114)
— Trade and other payables	**(75,558)**	137,096
— Pledged bank deposits	**–**	(4,139)
Cash generated (used in)/from operating activities	**(54,461)**	128,808

Notes to the Consolidated Financial Statements

36 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:

	2016 HKD'000	2015 HKD'000
Not later than one year	**9,121**	5,095
Later than one year	**18,583**	11,364
	27,704	16,459

Capital Commitments

	2016 HKD'000	2015 HKD'000
Capital expenditure contracted but not provided for	**8,298**	14,475

37 Business Combination

Acquisition of Passive Optics Business Unit of Titan Photonics, Inc.

On 12 October 2016, the Group acquired Passive Optics Business Unit of Titan Photonics, Inc. ("Titan"). According to the sale and purchase agreement, the Group received all assets related to the Passive Optics Business Unit, mainly included the customers and purchase orders of the Passive Optics Business Unit of Titan (the "Passive Optics Business Unit") as of the acquisition date, and all assets to be required to operate the Passive Optics Business Unit. The consideration for the Passive Optics Business Unit shall be no more than USD2,000,000 (including USD500,000 contingent consideration). The contingent consideration is determined according to the future sale of the acquired business in coming 18 months. If the non-cancellable purchase orders received by the Group from Titan's customer exceed USD2,000,000 within 18 months after acquisition date, the Group will pay additional USD500,000 as consideration. Based on the actual sale for last three months management believed that the contingent consideration amounting to USD500,000 is likely to be paid. Therefore, it was considered as consideration at acquisition date and classified as a liability.

As a result of the acquisition, the Group is expected to strengthen the customer network of telecommunication and data communication.

37 Business Combination *(Continued)*

Details of the net assets acquired and goodwill are as follows:

	HKD'000
Consideration:	
At 12 October 2016	
— Cash	7,273
— Other payables	8,237
Total consideration	15,510
Recognized amounts of identifiable assets acquired and liabilities assumed	
Intangible assets (Note 9)	11,353
Deferred income tax liabilities (Note 27)	(1,703)
Total identifiable net assets	9,650
Goodwill (Note 9)	5,860

No acquisition-related costs have been charged to administrative expenses in the consolidated statement of profit or loss for the year ended 31 December 2016.

The revenue included in the consolidated statement of profit or loss since date of acquisition contributed by Titan was HKD3,485,000. Titan also contributed profit of HKD1,128,000 over the same period.

Notes to the Consolidated Financial Statements

38 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 (*)

* From October 2016, O-net WaveTouch Limited was no longer the related parties of the Group after the Group's disposal of its investment in it.

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

(b) Transactions with Related Parties

The Group had undertaken the following significant transactions with related parties during the years ended 31 December 2016 and 2015:

	2016 HKD'000	2015 HKD'000
Sales of goods		
Butterfly	**2,020**	2,001
Rental income received from a related party		
Butterfly	**1,531**	1,595

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.

38 Related Party Transactions *(Continued)*

(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:

	2016 HKD'000	2015 HKD'000
Salaries, bonus and other welfares	20,408	17,398
Pension — defined contribution plans	838	837
Share option expenses	2,156	5,868
	23,402	24,103

(d) Balances with Related Parties

In 2016 and 2015, the Group had the following balances with related parties:

	2016 HKD'000	2015 HKD'000
Trade receivables (i)		
Butterfly	95	3,406
Other receivables (i)		
Butterfly	–	4,343
WaveTouch	298	148
	298	4,491
Other payables (i)		
Butterfly	–	1,052

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

Notes to the Consolidated Financial Statements

39 Balance Sheet And Reserve Movement of the Company

Balance Sheet of the Company

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

		As at 31 December	
	Note	2016 HKD'000	2015 HKD'000
ASSETS			
Non-current assets			
Investments in subsidiaries		537,039	526,722
Current assets			
Trade and other receivables		390,992	382,275
Cash and cash equivalents		1,589	828
		392,581	383,103
Total assets		929,620	909,825
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		7,414	7,319
Share premium		825,501	807,830
Treasury shares		(74,926)	(74,926)
Other reserves	(a)	105,128	94,483
Retained earnings		(9,888)	(2,178)
Total equity		853,229	832,528
LIABILITIES			
Current liabilities			
Trade and other payables		76,391	77,297
Total liabilities		76,391	77,297
Total equity and liabilities		929,620	909,825

The balance sheet of the Company was approved by the Board of Directors on 14 March 2017 and was signed on its behalf.

Na Qinglin
Director

Tam Man Chi
Director

39 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 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
At 1 January 2016	**1,305**	**94,644**	**(1,466)**	**94,483**
Share option scheme — value of services	**–**	**10,217**	**–**	**10,217**
Currency translation differences	**–**	**–**	**428**	**428**
At 31 December 2016	**1,305**	**104,861**	**(1,038)**	**105,128**

Notes to the Consolidated Financial Statements

40 Benefits and Interests of Directors

(a) Directors' Emoluments

The remuneration of each director of the Company for the year ended 31 December 2016 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	Total HKD'000
Mr. Na Qinglin (i)	134	3,120	–	682	18	3,954
Mr. Chen Zhujiang	–	134	–	–	–	134
Mr. Huang Bin	–	134	–	–	–	134
Mr. Tam Man Chi	–	134	–	–	–	134
Mr. Deng Xinping	268	–	–	–	–	268
Mr. Ong Chor Wei	268	–	–	–	–	268
Mr. Zhao Wei	268	–	118	–	–	386
	938	3,522	118	682	18	5,278

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	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	–	192	–	–	492
	1,050	3,210	192	150	140	4,742

(i) Mr. Na Qinglin is the Chairman of the Board, as well as the Chief executive of the Group.

40 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 2016 (2015: one), whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining four (2015: four) individuals are as follows:

	2016 HKD'000	2015 HKD'000
Basic salaries	10,175	9,757
Pension costs	419	558
Bonus	1,989	1,987
Share option expenses	742	1,037
	13,325	13,339

Emoluments of the five highest paid individuals paid by the Group fell within the following bands:

	2016	2015
Emolument bands		
HKD1,500,001–HKD2,000,000	1	–
HKD2,000,001–HKD2,500,000	3	3
HKD2,500,001–HKD3,000,000	–	1
HKD3,000,001–HKD3,500,000	–	–
HKD3,500,001–HKD4,000,000	1	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 2016 (2015: none).

(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 (2015: Nil).

(d) Directors' termination benefits

No termination on the appointment of director and chief executive of the Company and certain subsidiaries occurred in 2016, thus no related termination benefits was paid (2015: Nil).

(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 (2015: Nil).

Five-Year Financial Summary

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

CONSOLIDATED INFORMATION

For the year ended 31 December

	2016 HKD'000	2015 HKD'000	2014 HKD'000	2013 HKD'000	2012 HKD'000
Profitability and operating data					
Turnover	**1,598,319**	1,135,495	831,280	661,502	727,368
Gross profit	**569,685**	362,557	288,949	211,778	300,439
Selling and marketing costs	**63,408**	49,450	36,386	30,319	37,141
Research and development expenses	**187,812**	135,080	105,952	88,979	73,137
Administrative expenses	**177,501**	134,024	107,206	98,129	93,555
Profit before income tax	**154,366**	82,078	51,364	15,039	114,128
Profit for the year	**128,805**	79,249	43,344	13,375	97,810
Profit attributable to equity holders of the Company	**130,603**	82,535	43,344	13,375	97,810
Profitability ratios					
Gross profit margin	**35.6%**	31.9%	34.8%	32.0%	41.3%
Profit before tax margin	**9.7%**	7.2%	6.2%	2.3%	15.7%
Profit margin	**8.1%**	7.0%	5.2%	2.0%	13.4%
Profit* margin	**8.2%**	7.3%	5.2%	2.0%	13.4%
Operating ratios (as a percentage of revenue)					
Selling and marketing costs	**4.0%**	4.4%	4.4%	4.6%	5.1%
Research and development expenses	**11.8%**	11.9%	12.7%	13.5%	10.1%
Administrative expenses	**11.1%**	11.8%	12.9%	14.8%	12.8%

As at 31 December

	2016 HKD'000	2015 HKD'000	2014 HKD'000	2013 HKD'000	2012 HKD'000
Assets and liabilities data					
Non-current assets	**999,440**	858,707	766,374	643,062	492,449
Current assets	**1,487,191**	914,258	780,786	940,059	1,096,170
Non-current liabilities	**62,752**	15,852	14,176	6,118	–
Current liabilities	**995,176**	422,284	211,504	202,945	199,948
Equity	**1,428,703**	1,334,829	1,321,480	1,374,058	1,388,671

* Profit means Profit attributable to Equity Holders of the Company