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 2017

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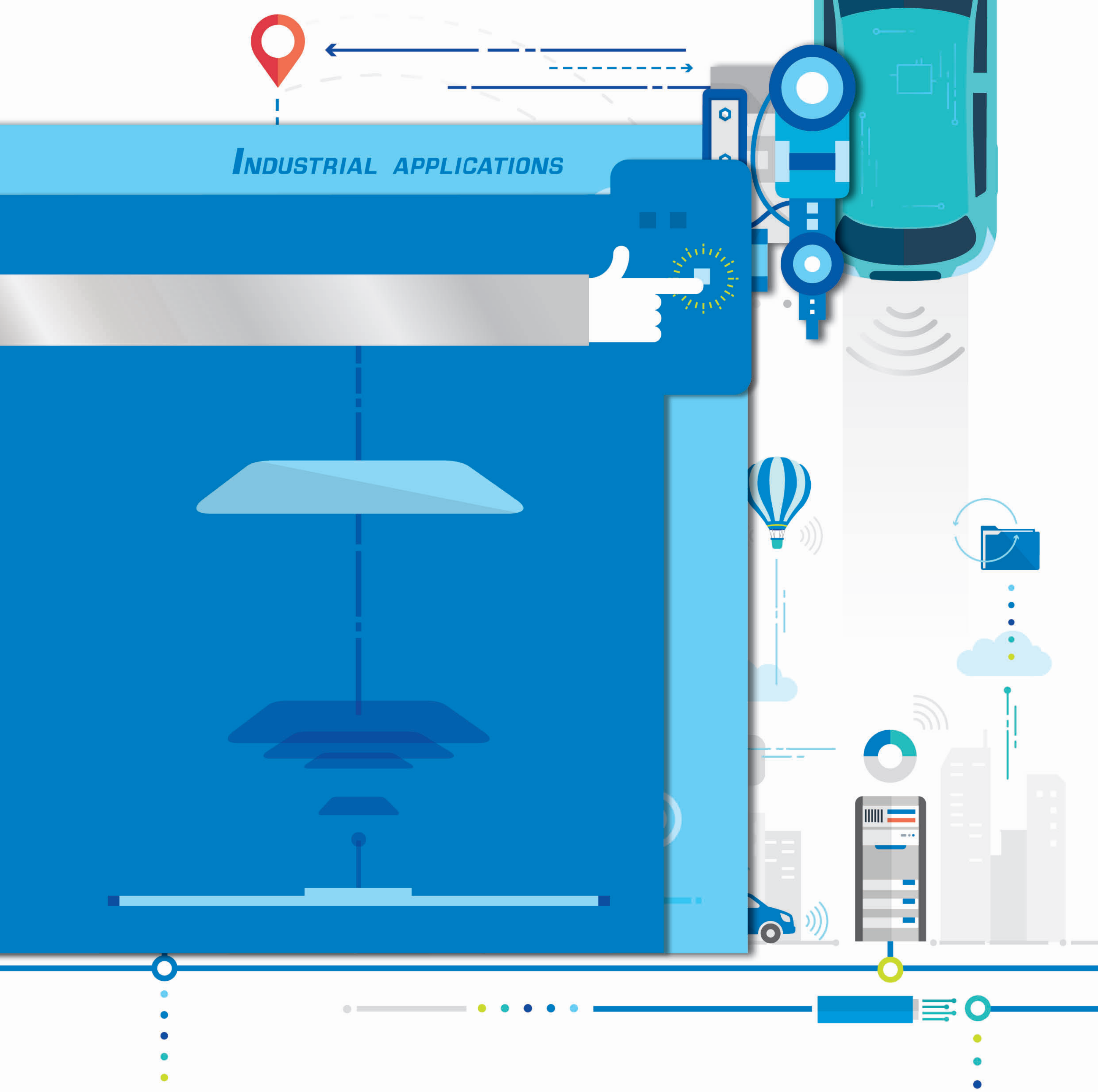

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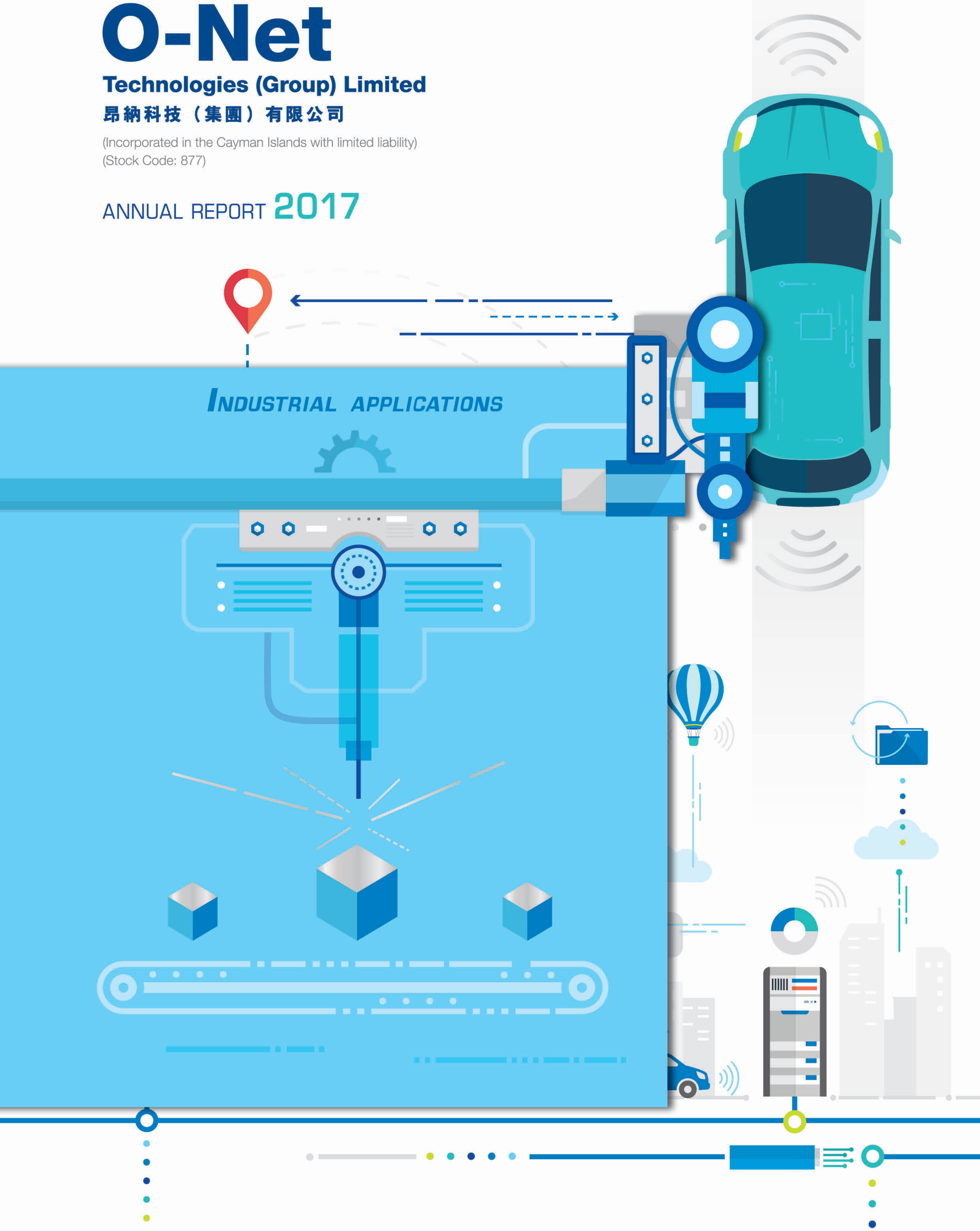

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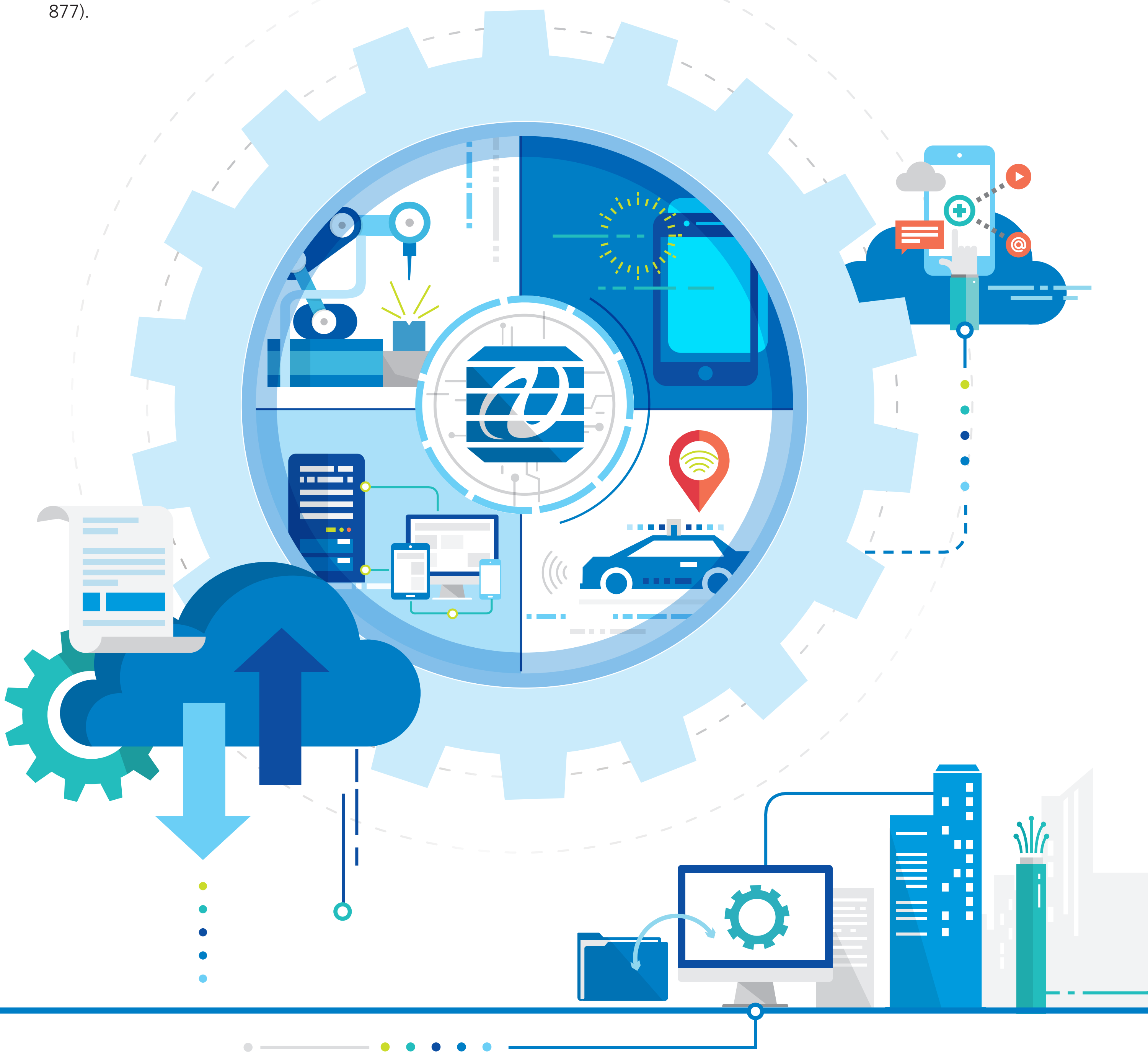
ANNUAL REPORT 2017

Corporate Profile

O-Net, as a high-technology leader, is capable to provide advanced innovative products and solutions in various markets, including (1) optical networking market, which consists of (a) telecommunications applications, the Group's traditional core business; and (b) data center market, where the Group's effort mainly focuses on development of high-speed transceivers and associated components; (2) industrial applications market, in which the Group has invested resources on machine vision systems and sensing products for Industry 4.0 as well as ultra-reliable fiber-optic components and multi-kilowatt optical components for fiber laser market, and components and module for Light Detection And Ranging ("LiDAR") used in the emerging Advanced Driver Assistance Systems ("ADAS") application; and (3) consumer electronics market, where the Group is utilizing its optical coating capabilities to supply special products/solutions for smartphone.

The Group has presence around the world including in mainland China, USA, Canada and Germany and employs about 4,800-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).



Turnover increased **27.3%** to HKD2.0 billion

Gross profit margin increased to **35.7%** by 0.1%

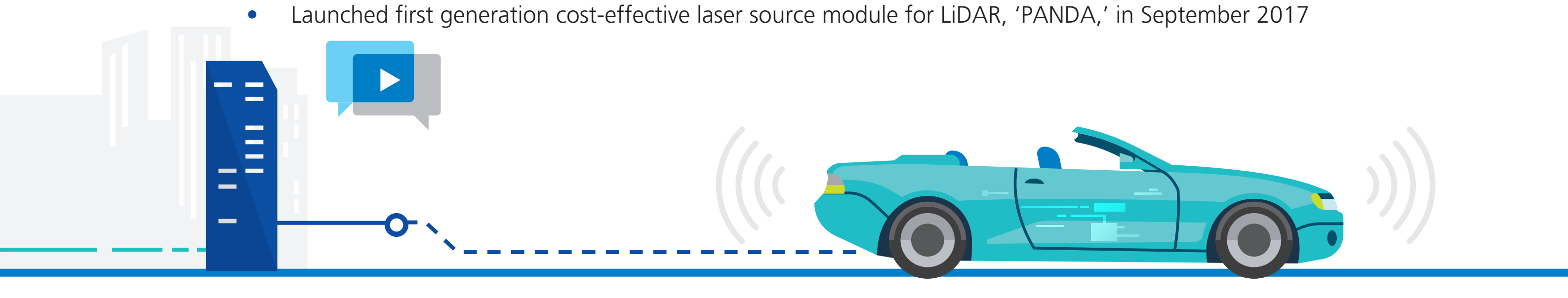
Profit attributable to equity holders increased by **60.0%** to HKD208.9 million

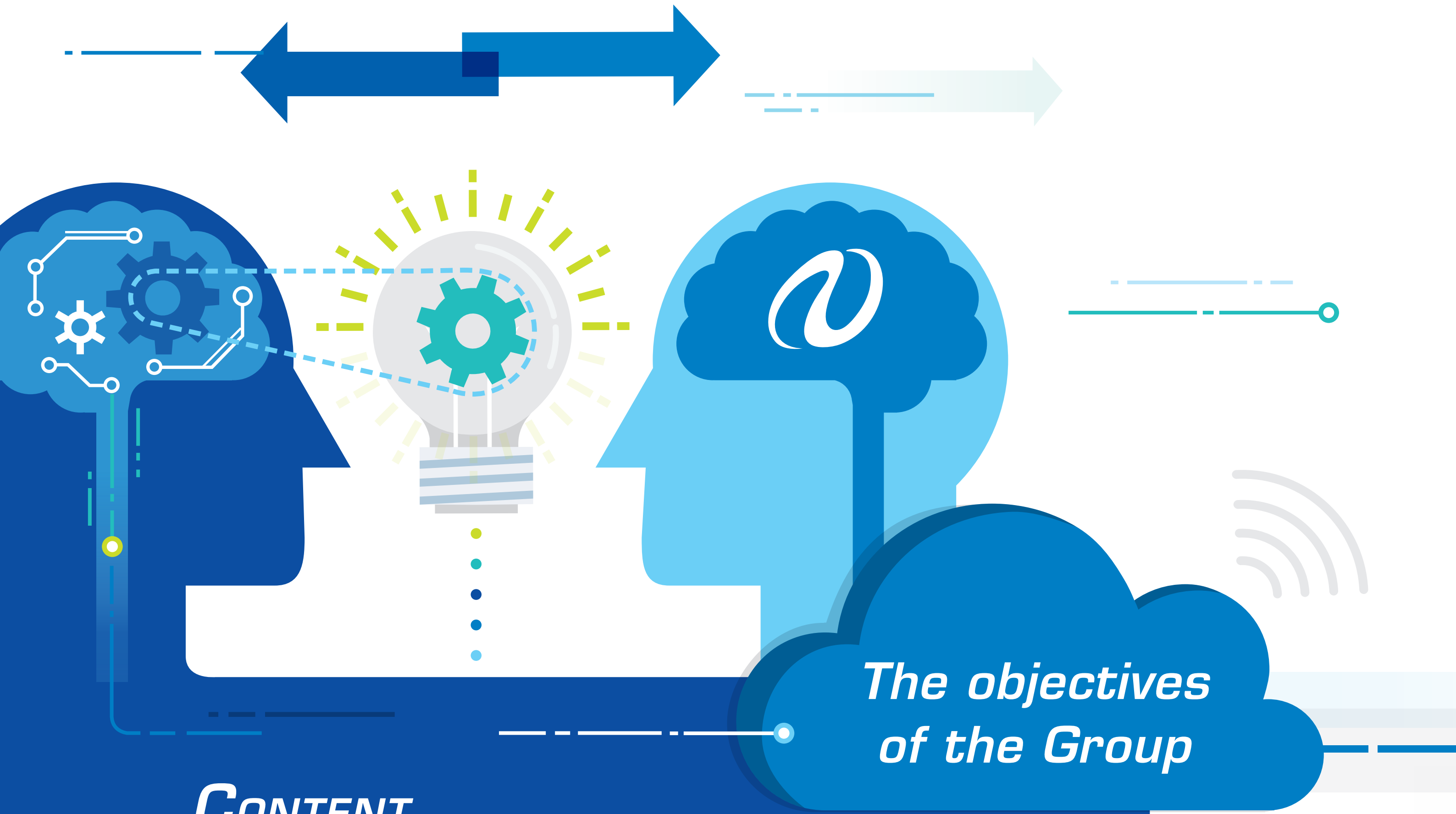
Earnings per share increased by **55.6%** to HKD0.28 per share

Operational Performance

1. Optical networking business
    - Added new strategic overseas customers
    - Mass production and shipment of Integrated Coherent Receivers, 10x10 TOSA & ROSA and Tunable Filters for 100GbE applications
    - Gain greater market shares from overseas customers in both telecommunications and data-communications markets

2. New businesses contributed by "Diversify for Growth" strategy
    - Tapped the consumer electronics market with outstanding returns and growth attributable to the strong demand from a leading Chinese smartphone brand
    - Tapped fast-growing multi-kilowatt laser market by offering 2 kilowatt laser engine and 6 kilowatt laser combiners, as well as discrete optical components capable of handling 3 kilowatts of power
    - Added new customers for LiDAR components and extended the penetration in the autonomous vehicle market
    - Launched first generation cost-effective laser source module for LiDAR, 'PANDA,' in September 2017





CONTENT

As a leading optical networking company, devoted to:

a. increase market share with its diversified product portfolio for both existing and new customers;

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;

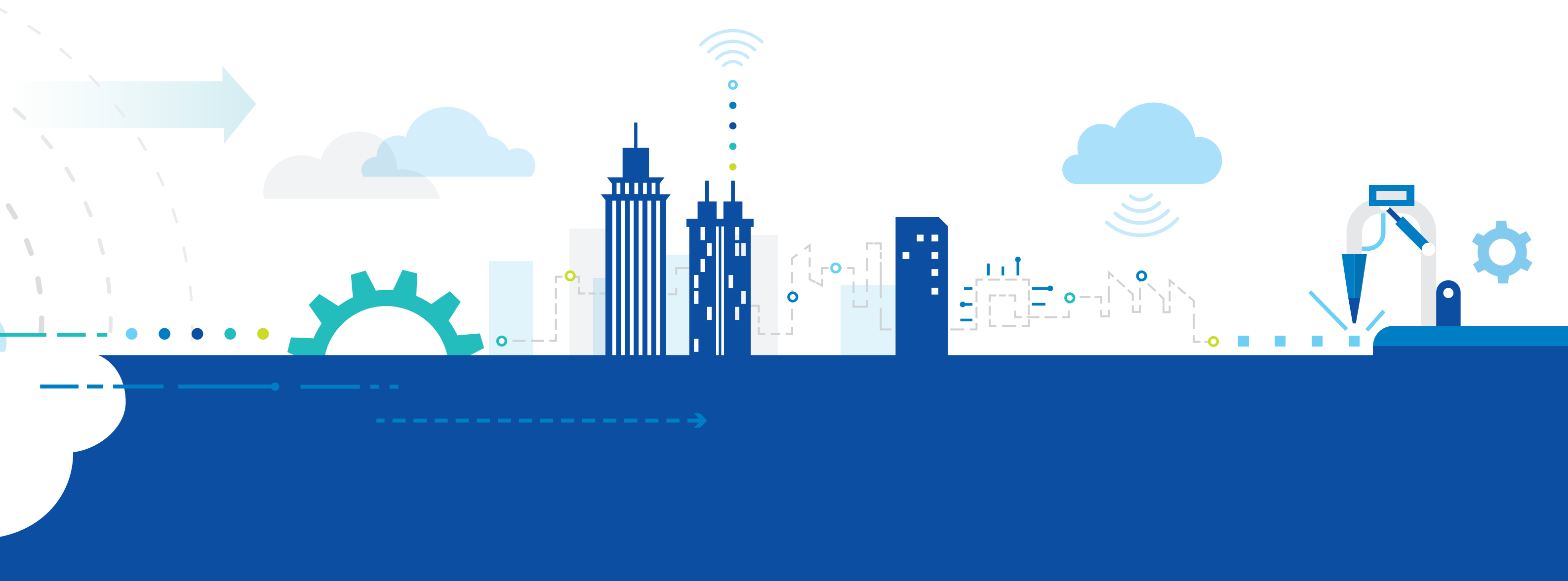
b. strengthen our R&D capabilities through global investments and ongoing expansion in our R&D teams; and

c. become leading high technology enterprise in the various high-growth 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. Chen Zhujiang
Mr. Huang Bin
Mr. Mo Shangyun

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

Remuneration Committee

Mr. Deng Xinping *(Chairman of the Remuneration Committee)*
Mr. Huang Bin
Mr. Na Qinglin
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. Zhou Yu

Authorized Representatives

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

Company Secretary

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

Investor Relations Contact

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

Legal Advisors to the Company

As to Hong Kong law:

Deacons

As to Chinese law:

Global Law Office

As to Cayman Islands law:

Conyers Dill & Pearman

As to U.S. law:

Shearman & Sherling

Auditor

PricewaterhouseCoopers

Property Valuer

Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Valuer

ValQuest Advisory Group Limited

Principal Bankers

China

China Merchants Bank
Bank of China
China Bohai Bank

Hong Kong

The Hongkong & Shanghai Banking Corporation Limited

Stock Information

Place of Listing

The Stock Exchange of Hong Kong Limited

Stock Code

0877

Listing Date

29 April 2010

Issued Share Capital

799,946,240 shares (as at this report approval date)

Board Lot Size

1,000 shares

Cayman Islands Share Registrar

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

Hong Kong Share Registrar

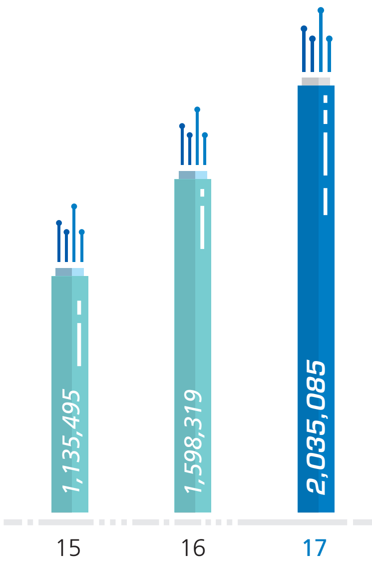
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Financial Highlights

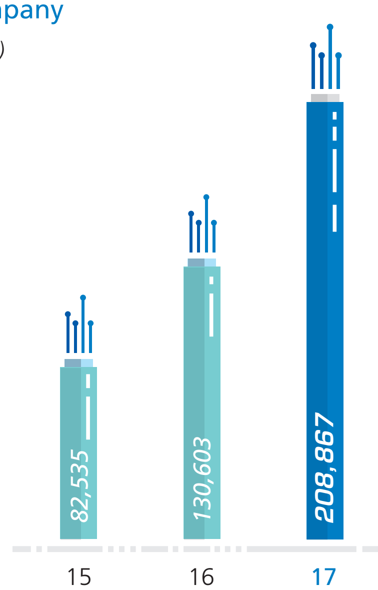
Revenue

HKD **2,035.1** million

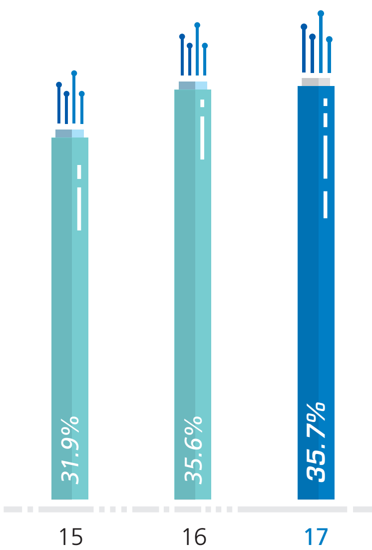
Revenue
(HKD'000)



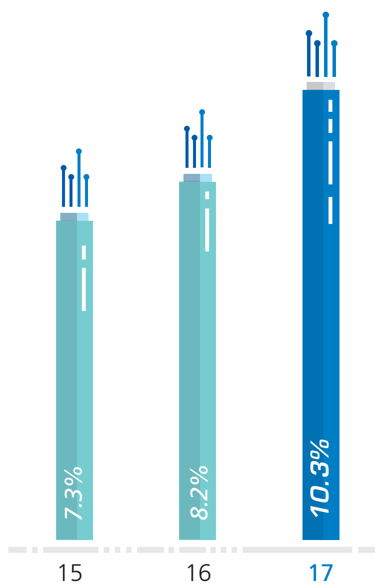
Profit Attributable to Equity Holders of the Company
(HKD'000)



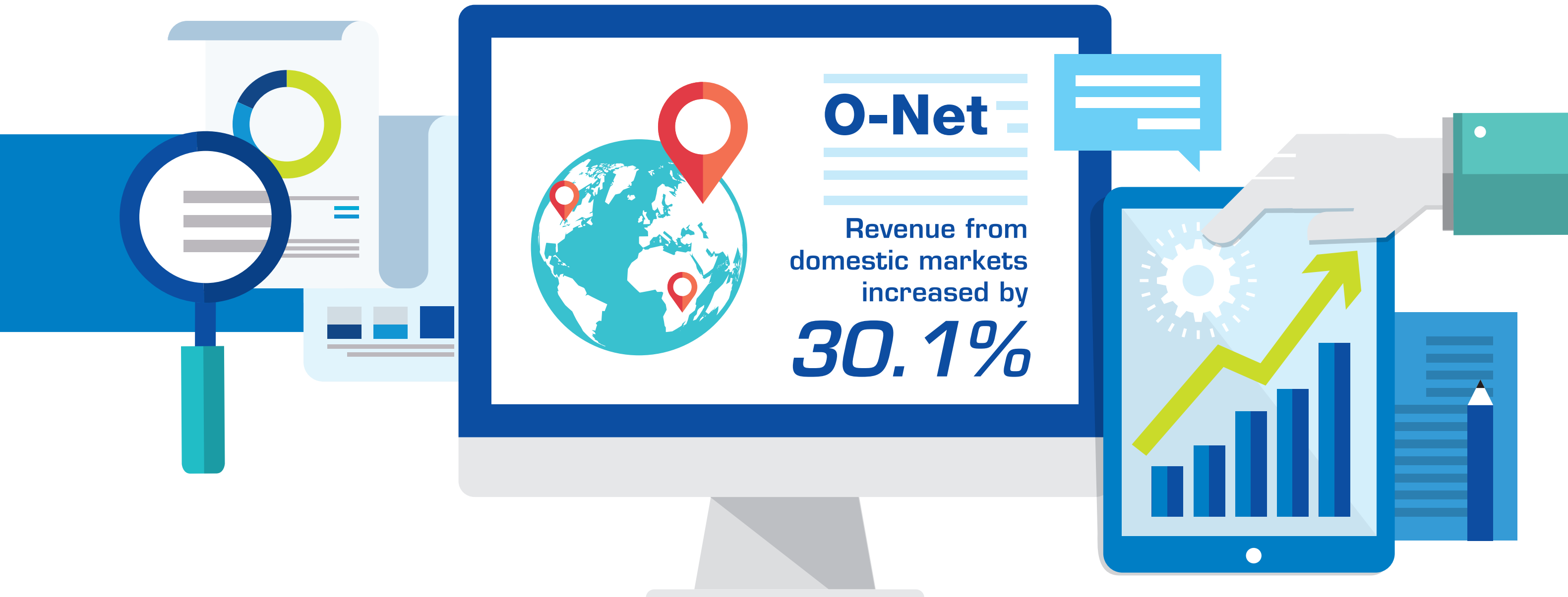
Gross Profit Margin



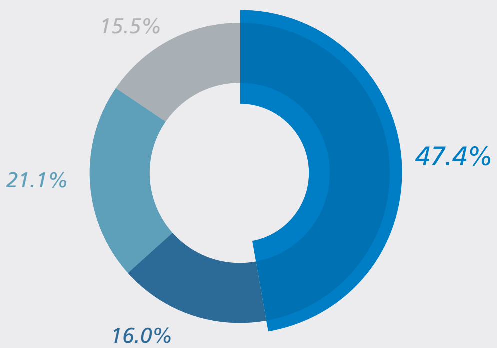
Profit* Margin



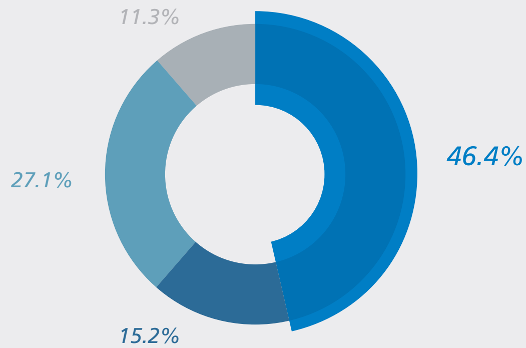
* *Profit means profit attributable to equity holders of the Company*



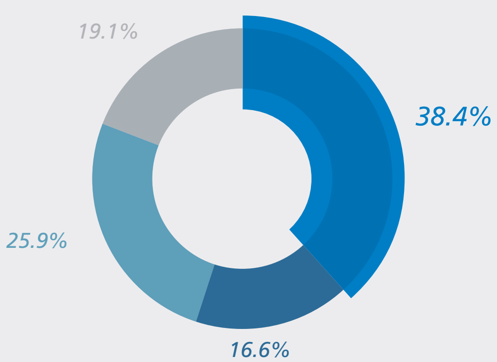
2017 Revenue by Geographical Segment



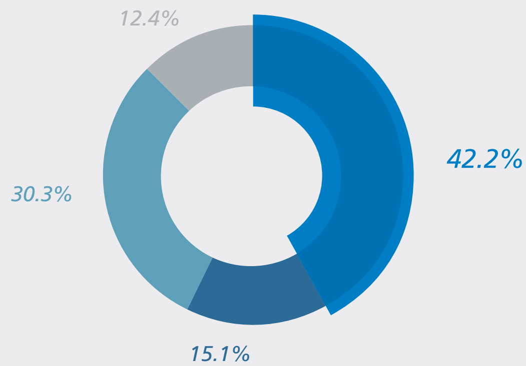
2016 Revenue by Geographical Segment



2017 Revenue of Optical Networking Business by Geographical Segment

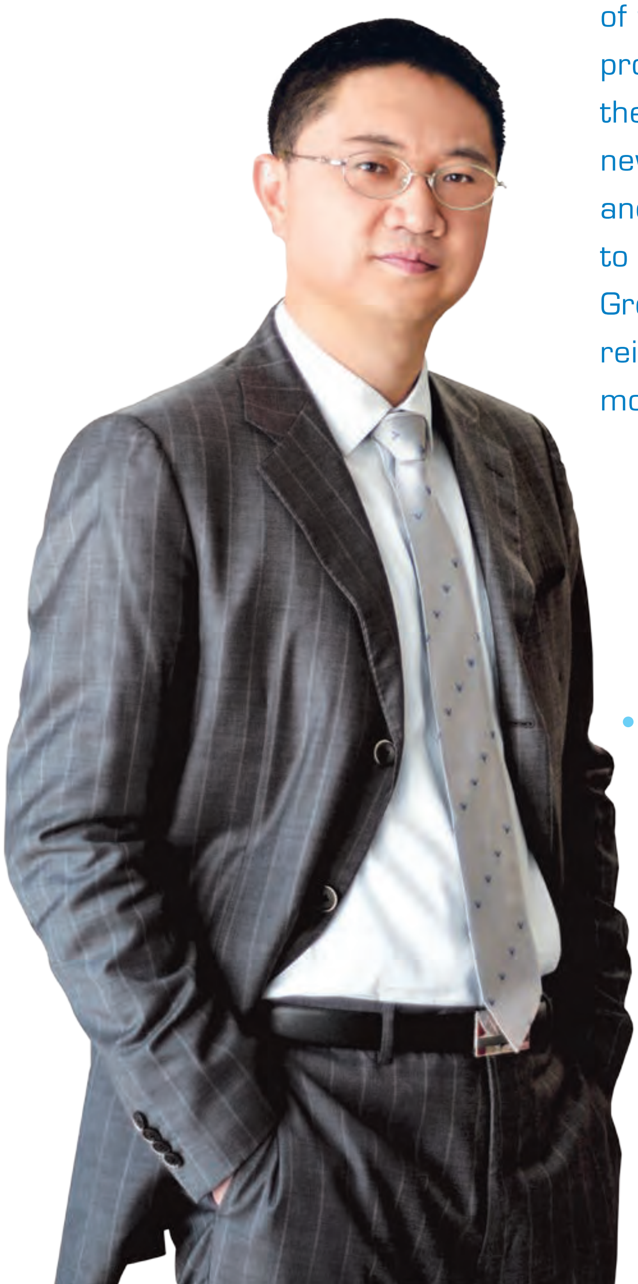


2016 Revenue of Optical Networking Business by Geographical Segment



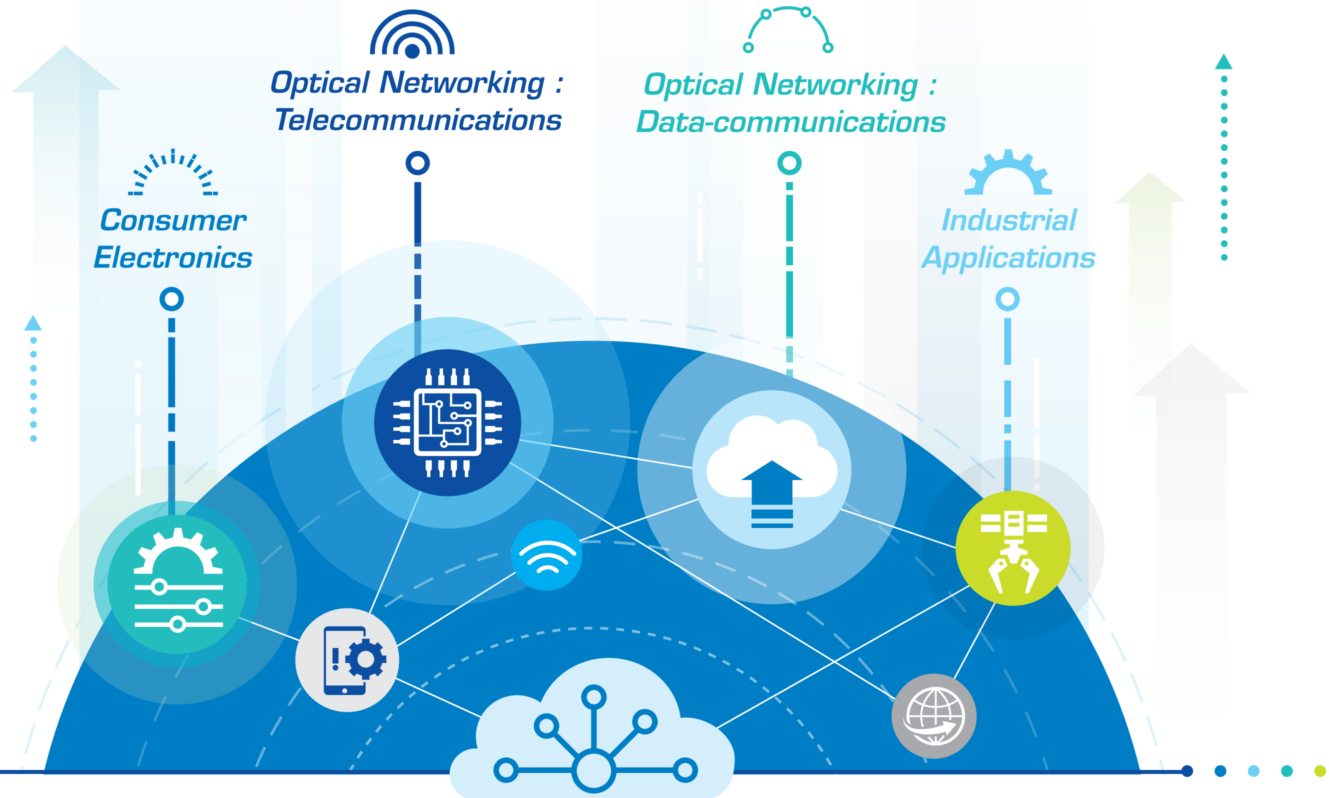
• PRC • North and South America • Europe • Asia (ex PRC)

IMPRESSIVE GROWTH WITH MEANINGFUL NEW REVENUE CONTRIBUTIONS



I am extremely pleased to see O-Net deliver solid annual results in FY2017, particularly the outstanding performance of new businesses. Besides the introduction of our next-generation of telecommunications and data-communications products that continued to support the growth of the optical networking business, our high-margin new businesses including industrial applications and consumer electronics have also contributed to this fruitful year, proving that our "Diversify for Growth" strategic thrust has enabled O-Net to reinforce its leadership in the industry and explore more profit streams.

Na Qinglin
Chairman and Chief Executive Officer

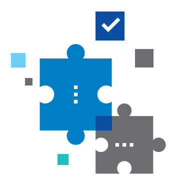


Core Business – major revenue contributor with stable growth

- Captured greater market share from both existing and new strategic overseas customers in telecommunications business
- Strong demand to key products for 100GbE telecommunications market including EDFAs and linecards, Integrated Coherent Receivers and Tunable Filters
- Strong demand to both passive optical components and transceiver modules from data-communications market

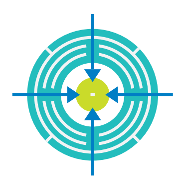
Remarkable growth across all new businesses contributed by "Diversify for Growth" strategy

- Leveraged on optical coating technologies and new capacities to tap the consumer electronics market with outstanding returns and growth attributable to the strong demand from a leading Chinese smartphone brand
- Introduced multi-kilowatt laser components and module to capture greater market share in high-growth industrial laser market
- Tapped the fast-growing Advanced Driver Assistance Systems market through optical components for the laser source module of LiDAR



Multi-year high-growth cycle

- Seventeen years of technologies expertise with high barrier to enter
- Vertical integrated business model with core competence
- World class R&D and management team
- High-growth prospects for selected adjacent business segments



Chairman's Statement

Overall Performance

The Year of 2017 was a dynamic year for O-Net. Even as the unwinding of the inventory within the telecommunications market in the first half of 2017 had a dampening effect on our growth, the long-term positive optical components market drivers remain in place. In addition, the "Diversify for Growth" strategy that we have embraced and implemented over the past several years has begun to bear fruit. In the course of executing this strategy, we have strived to comprehensively leverage synergies across our technology platforms in order to maximize our corporate value. In FY2017, our performance was propelled on the back of successes achieved across all of our businesses, even the traditional telecommunications business after the inventory take-down in the first half of 2017, leading to overall revenue and non-GAAP net profit of 27.3% and 51.0% to HKD2,035.1 million and HKD244.7 million respectively.

Business Review

The global telecommunications market became weak resulting from lower capital expenditure from telecommunications companies in China and the inventory take-down by the major China-based equipment vendors. Nonetheless as a prominent player in the optical networking industry with a strong local and global presence, the Group has enjoyed a highly favorable performance in the telecommunications markets, successfully capturing greater market share and achieving a 13.5% year-on-year growth over the second half of 2017 in comparable period of 2016.

In addition, the 100G data-communications market has finally turned on in a big way driven by the growth in web-scale data centers. The Group has extended its optical networking business presence to tap the data-communications market which effort has started to bear fruits in 2016, successfully capturing greater market share with 49.9% year-on-year growth in the second half of 2017 in comparison with the corresponding period of 2016. Through the next-generation products, including 100GbE Active Optical Cable ("AOC") and 10X10 TOSA & ROSA products that have been qualified by and delivery started to customers as well as the launch of the 100GbE QFSP 28 CWDM4, I believe the data-communications optical networking business will subsequently further expand as one of our core businesses in the future.

On the other hand, our industrial applications business has made clear advances as well. Apart from providing various automation solutions to members of the electronic cigarettes manufacturing industry, as well as machine vision systems and fiber sensing products to the smart manufacturing industry, we have tapped the fast-growing industrial laser industry and Advanced Driver Assistance Systems ("ADAS") industry through our laser products, both representing significant growth drivers for the Group.

Still another encouraging development is our consumer electronics business. Having leveraged our optical coating and processing technology platform, we successfully tapped the consumer electronics market and have delivered outstanding returns and growth attributable to the strong demand from a leading Chinese smartphone brand. In addition to providing coating services to the consumer electronics market, we are also investing in collaborative ventures for a prospective new product, a 3D sensing module, which holds immense potential for enhancing our long-term growth and profitability for our consumer electronics business.

Results Highlights

The Group has performed exceptionally well during the latest financial year owing to the hard work and commitment demonstrated by the entire O-Net workforce. As at FY2017, the Group recorded revenue of HKD2,035.1 million, a significant increase of 27.3% over the preceding year. Other outstanding metrics include rises in gross profit and profit attributable to equity holders of the Company of 27.5% and 60.0% to HKD726.5 million and HKD208.9 million respectively.

Prospects

As the 100G data-communications applications area has shown great promise for a number of years now, we will continue to develop and launch next-generation 100GbE products that enable the Group to gain a greater share of the data-communications market. Besides organic growth, we expect the acquisition of 3SP Technologies to be completed in 2018, enabling 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 deployment of 100G data-communications and 5G mobile networks 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 industrial applications businesses. With the creation of "smart factories" in the coming years, we will be launching state-of-art machine vision systems and multi-kilowatt fiber laser systems in response, both of which are expected to serve as catalysts for our advancement.

Yet another exciting development to emerge from the "Diversify for Growth" strategy is our involvement in technologies for Light Detection And Ranging ("LiDAR"), which also demonstrates our farsighted approach towards technology business development. Qualified by three leading players, our LiDAR components will be spearheading the Group's penetration of the autonomous vehicle market. To expedite our leading position in the ADAS market, our first generation cost-effective laser source module for LiDAR, 'PANDA' has been launched in September 2017. We believe that by leveraging our cutting-edge technologies and R&D capabilities, we will continue to secure more new customers, and capture the ADAS industry as a growth driver.

Appreciation

At this time I would like to extend my appreciation to our shareholders for their unwavering trust and commitment to O-Net. I also wish to 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 at every level for their perseverance and dedication to the advancement of O-Net.

Na Qinglin
Chairman and Chief Executive Officer

Hong Kong, 20 March 2018

Management Discussion and Analysis

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

The "Diversify for Growth" strategy rolled out by the management back in 2012 has proven to be the catalyst for growth of various new businesses for the Group. This strategy has led to (i) the introduction of automation solutions for the E-cigarette industry; (ii) the launching of machine vision systems and sensors; and (iii) the offering of advanced industrial laser products by ITF. All of these products and solutions have performed exceptionally well in the past year, hence laying the groundwork for further penetration across a wider swath of Industry 4.0 applications. In addition, having leveraged cutting edge technology platforms of O-Net, 3SP and ITF, the Group tapped the Advanced Driver Assistance Systems ("ADAS") and smartphone markets which have performed impressively in the past year, hence driving the long-term growth riding the immense potential of the consumer electronics market.

Apart from the optical networking market for telecommunications applications, its traditional core business, the Group also continue to focus on other markets, including: (i) cloud data center infrastructure; (ii) numerous automation-related businesses to capture Industry 4.0 and robotics opportunities; (iii) the multi-kilowatt fiber laser industry; (iv) LiDAR for emerging ADAS application; and (v) coating solutions for the consumer electronics products. Consistent with its strategic direction and overall goal to further distinguish itself as a leader in the global technology industry, it will continue to seek acquisition opportunities to realize synergies with core and new businesses and accelerate its growth.

Industry and Business Review

While the demand from the telecommunications market is weak and unforeseen circumstances are likely to continue to overshadow its growth, nevertheless, the Group has managed to accelerate the business growth and has delivered an outstanding performance through its business transformation, diversification strategy and strengthened R&D capabilities.

Optical Networking Business

In FY2017, the Group's optical components business has duly seized opportunities resulting from both the telecommunications and data-communications sectors, and generated revenue of HKD1,601.0 million, up 14.7% year-on-year, far outstripping the expected contraction pace of the expected global optical market of 4%, which was mainly due to the contraction of telecommunications markets.

Telecommunications Business

The global optical components market for telecommunications applications has experienced contraction during 2017 which was mainly due to the inventory burn-down correction. Nevertheless, riding on the continuous advancement in the market shares, the telecommunications business recorded a moderate year-on-year growth of 8.8% and generated HKD1,159.6 million in revenue, remaining the principal revenue contributor, and accounted for 72.4% of this business and 57.0% of total revenue of the Group in the latest financial year.

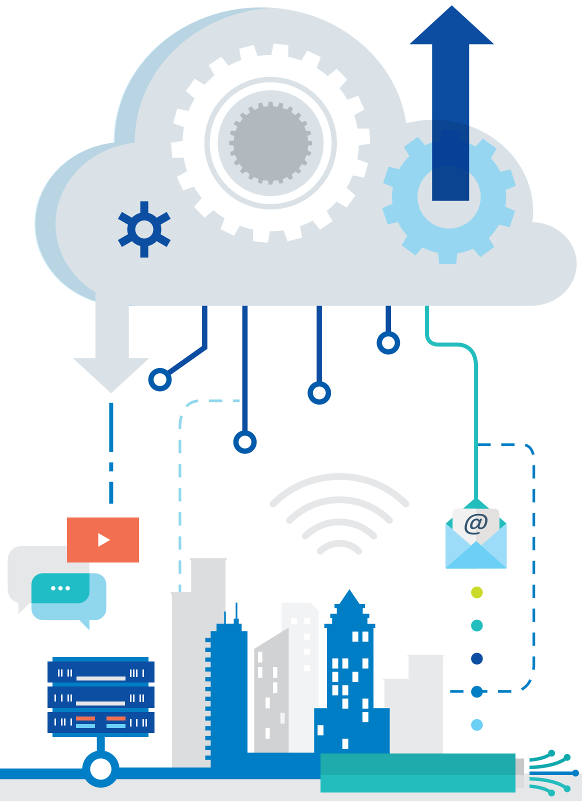
Data-communications Business

On the other hand, data-communications growth has been spurred by the upgrade of data centers by global web-scale operators from 40GbE to 100GbE due to demand for higher speed cloud services, and thus the data-communications market is expected to achieve compound annual growth rates ("CAGR") of 9% from 2016 to 2022, reaching USD5.2 billion in value by the end of 2022.

Though the Group's data-communications business accounted for 27.6% of optical networking business revenue at HKD441.4 million — representing 21.7% of the its total revenue — it also outpaced the telecommunications business in terms of revenue growth. The data-communications business generated revenue of HKD330.0 million in FY2016, hence a favourable year-on-year growth of 33.8% has been achieved within 12 months in this business.

Industrial Applications Businesses

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



Optical Networking Business

Telecommunications market

- Higher data rates in supporting new applications such as Internet-of-things and 5G mobile networks
- New products launched including Integrated Coherent Receiver and Tunable Filter for 100GbE and 200GbE telecommunications application

Data-communications market

- Increase in demand for higher speed cloud services
- Upgrade of data centers from 40GbE to 100GbE by global web-scale operators
- Launched of 100GbE QSFP28 AOC and 100GbE QSFP28 CWDM4 for 100GbE data centers application

Management Discussion and Analysis

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 sectors in China. Among the products that are forecast to achieve significant sales growth include machine vision systems which generated global sector sales of USD540 million in 2015 and are projected to achieve a CAGR of 18% from 2015 to 2020.

For its part, in FY2015, the Group rolled out its first machine vision system, and has continued to invest and expand its product portfolios to cater to strong demand. Consequently, sales of this product achieved impressive growth of 101.9% year-on-year, contributing HKD32.3 million in revenue to the industrial applications businesses in FY2017, thus reaffirming its growth driver status.

Automation Solutions Business for E-cigarette

As a leading supplier of the E-cigarette industry by virtue of supplying heating coils and automated E-liquid filling & assembly machines, the Group continued to provide various automation solutions for the E-cigarette manufacturing industry. Capitalizing on strong demand and the Group's longstanding relationships with several major E-cigarette makers in China, its E-cigarette business recorded a strong year-on-year growth of 35.6% and generated revenue of HKD63.6 million for the year.

Industrial Laser Business

For 2017, the global industrial laser market recorded growth of 26% to USD4.3 billion with industrial fiber lasers leading the way recording a growth of 34% to USD2.0 billion. Since 2015, the Group has successfully tapped the industrial laser industry through the acquisition of ITF, a leading supplier of ultra-reliable fiber-optic components,

Industrial Applications Businesses

Industry 4.0 and "Made in China 2025" initiatives set to have significant opportunities to the intelligent, digital and networked manufacturing market

Machine Vision

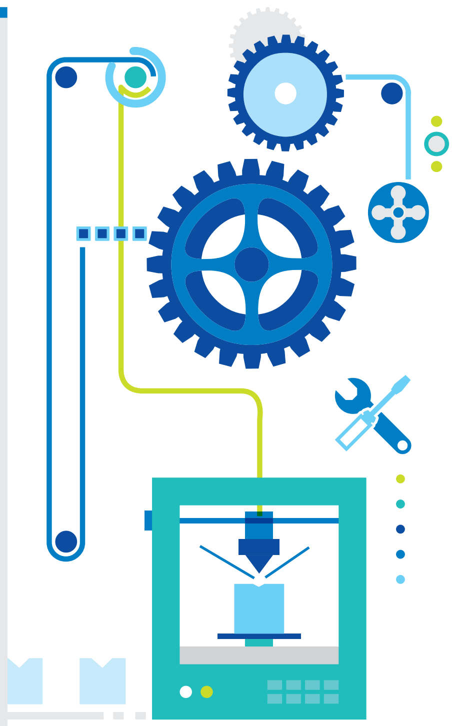
- Targeting to be No.1 domestic independent machine vision solution provider in China

Automation solutions for E-cigarette

- Leading supplier of automation solutions for the players of E-cigarette with growth outpace the market

Industrial laser

- A series of multi-kilowatt fiber laser systems will be launched in 2018



such as Fiber Bragg Grating (FBG) and high-power fused components and modules for fiber laser systems, which has addressed several applications for industrial fiber lasers across the different power and wavelength spectrums, including macro/micro material processing, marking and engraving, and welding applications since 2006. Capitalizing on ITF's innovations and the synergies after the acquisition, the Group was able to significantly outpace the market to record a growth rate of 67.3% and generated revenue of HKD123.5 million in FY2017.

During 2017, ITF expanded its offerings in multi-kilowatt applications by offering a class-leading 2 kilowatt laser engine and 6 kilowatt laser combiners, as well as discrete optical components capable of handling 3 kilowatts of power each. As a result, the Group generated HKD123.5 million in revenue from the industrial laser business in FY2017 which represented a growth rate of 67.3% in sales over the prior year, outpacing the overall fiber-laser market growth rate of 34% in 2017.

LiDAR Business

ADAS are believed to represent one of the most significant technologies to affect the evolution of the automobile while LiDAR is among the key solutions for making high-resolution images or maps used by ADAS for autonomous vehicles. By 2022, the value of the LiDAR market is projected to be USD5.2 billion according to estimates, achieving a CAGR of 25%. This significant growth will be driven by the rise in automated and highly automated vehicles expected to be on the road in ten years' time. To capitalize on such growth, the Group has established a production line for the assembly of laser source modules for LiDAR, and its optical components for the laser source module of LiDAR, which have also been qualified by a global technology giant, and has commenced shipment and generated revenue starting from the second half of 2016. Furthermore, it is pursuing cooperative ties with other LiDAR players and securing additional customers. All of these efforts have further bolstered the Group's position in this burgeoning business and generated revenue of HKD15.4 million for the year, surging 541.7% over the preceding year.

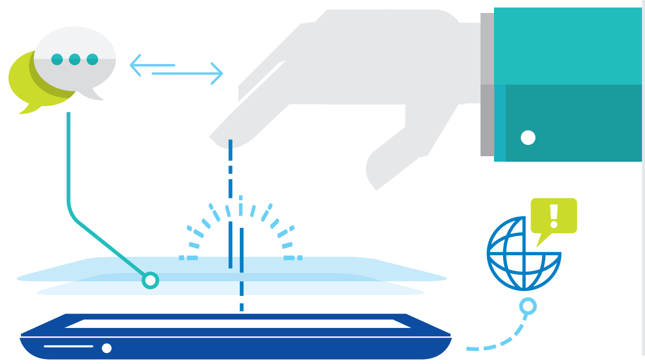
LiDAR for Advanced Driver Assistant System

- Committed to develop cost effective optical components for the next generation laser source module of LiDAR and next generation laser source module

Management Discussion and Analysis

Consumer Electronics Business

Based on market data, smartphone shipments are expected to grow from 1.47 billion in 2016 to 1.7 billion in 2021. Furthermore, for the three major smartphone manufacturers in China, smartphone shipments to China and globally rose by 15.3% and 22.3% respectively in 2017. This underscores the enormous growth potential of the smartphone market, particularly for smartphone manufacturers in China, which are a major customers of the Group's consumer electronics business. Capitalizing on the Group's cutting-edge coating technology, it provided multi coating solutions to the casing of the smartphone, and enjoyed strong demand from the smartphone market, as evidenced by significant revenue growth, rising from HKD63.4 million in FY2016 to HKD199.3 million in FY2017, a phenomenal year-on-year growth of 214.4%.



Consumer Electronics Business

- Aims to become the largest independent domestic coating provider for consumer electronics market in China
- Investment in collaborative ventures for 3D sensing module and aimed to launch in 2018

Financial Review

Revenue

For FY2017, the Group reported revenue of HKD2,035.1 million, representing an increase of HKD436.8 million, or 27.3%, compared with that of HKD1,598.3 million in FY2016. The increase in revenue in FY2017 was primarily attributable to the growth in revenue of all businesses, especially the new businesses contributed by the Group's "Diversify for growth" strategy.

Optical Networking Business

The optical networking business recorded a revenue of HKD1,601.0 million in FY2017, representing an increase of 14.7% as compared with that of HKD1,395.8 million in FY2016. The increase was primarily attributable to the growing demand for the optical networking products, especially in the data-communications business.

The revenue from the telecommunications business within the optical networking business increased by 8.8% to HKD1,159.6 million in FY2017, as compared with HKD1,065.8 million in FY2016, representing 72.4% of total optical networking revenue. The rise was attributable to the combined effect of (i) the net increase in sales of passive optical networking products to the telecommunications market; and (ii) the new revenue sources generated by sales of 100GbE active optical networking products to the telecommunications market.

The revenue from the data-communications business in the optical networking business increased by 33.8% to HKD441.4 million in FY2017, as compared with HKD330.0 million in FY2016, representing 27.6% of total optical networking revenue. The increase was attributable to the net effect of (i) the increase in sales of passive optical networking products to the data-communications market; (ii) the new 100GbE active optical networking product for data-communications market commenced mass shipments from second half of 2017; and (iii) the decrease in sales of 40GbE active optical networking product to the data-communications market.

The optical networking business in the overseas market recorded a revenue increase of 22.2% to HKD985.6 million in FY2017, as compared with HKD806.8 million in FY2016, representing 61.6% of its total optical networking revenue. The increase was attributable to the net effect of (i) capturing greater market shares from overseas customers to both telecommunications and data-communications markets; (ii) the new revenue sources generated by sales of 100GbE active optical networking products to the telecommunications market; and (iii) the decrease in sales of 40GbE active optical networking products to the data-communications market.

The revenue of the Group in optical networking business in the domestic market increased by 4.5% to HKD615.4 million in FY2017, as compared with HKD589.0 million in FY2016, representing 38.4% of its total optical networking revenue.

Industrial Applications Businesses

The industrial applications businesses recorded revenue of HKD234.8 million in FY2017, representing an increase of 68.8% as compared with that of HKD139.1 million in FY2016, attributable to the significant growth of revenue in all industrial application businesses.

Machine Vision Business

Revenue of HKD32.3 million was recorded in FY2017, representing an increase of 101.9% as compared with that of HKD16.0 million in FY2016. The rise in revenue in FY2017 was primarily attributable to bolstered sale efforts by setting up new sales offices in China.

Automation Solutions Business for E-cigarette

Revenue of HKD63.6 million was recorded in FY2017, representing an increase of 35.6% as compared with that of HKD46.9 million in FY2016. The increase in revenue in FY2017 was primarily attributable to the greater demand for heating coils from the major E-cigarette makers in China.

Industrial Laser Business

The Group's industrial laser business was solely contributed by ITF supplying optical components for the industrial laser application, such as fiber lasers. In FY2017, revenue from the industrial laser business of HKD123.5 million was recorded, representing an increase of 67.3% as compared with that of HKD73.8 million in FY2016. The revenue rise was primarily due to the increasing demands of FBG from both overseas and Chinese customers.

LiDAR Business

Revenue of HKD15.4 million was recorded in FY2017 as compared with that of HKD2.4 million in FY2016 which was primary attributable to (i) the rise of revenue from existing customers; and (ii) the revenue generated from a new customer by supplying optical components for LiDAR adopted in ADAS applications.

Consumer Electronics Business

Revenue of HKD199.3 million was recorded in FY2017, representing an increase of 214.4% as compared with that of HKD63.4 million in FY2016. The increase of revenue in FY2017 was primarily attributable to the greater demand for coating on metal frame as well as metal, glass and ceramic back casing from the smartphones manufacturers in China.

Gross Profit and Gross Profit Margin

The gross profit in FY2017 was HKD726.5 million, representing an increase of HKD156.8 million, or 27.5%, from the gross profit of HKD569.7 million in FY2016. The higher gross profit was primarily due to the rise in revenue from all businesses of the Group.

As a percentage of total revenue, gross profit margin increased to 35.7% in FY2017 as compared with 35.6% in FY2016. The increase of gross profit margin was the net effect of (i) the gross profit margin of optical networking business decreased to 32.9% in FY2017 as compared with 33.1% in FY2016; (ii) the revenue contribution from high margin new businesses (industrial applications and consumer electronics) increased to 21.3% in FY2017, as compared with 12.7% in FY2016, while the gross profit margin of these businesses were more than 40% (higher than that of the optical networking business).

Other Gains

Other gains in FY2017 increased by HKD9.2 million to HKD30.4 million, from HKD21.2 million in FY2016, which was primarily due to the net effects of (i) the increase in government grants by HKD35.5 million, from HKD13.3 million in FY2016 to HKD48.8 million in FY2017; and (ii) the impact of the weaker USD (for entities within the Group using RMB as functional currency) on the sales transactions and balances denominated in USD in FY2017, the foreign exchange loss increased by HKD28.6 million.

Selling and Marketing Costs

Selling and marketing costs of HKD76.2 million in FY2017 rose by HKD12.8 million, or 20.2%, compared with HKD63.4 million in FY2016. The increase in selling and marketing costs in FY2017 was primarily attributable to (i) the increase of the salary costs; (ii) higher amortization charges; and (iii) higher travelling expenses. However, selling and marketing costs as a percentage of revenue decreased to 3.7% in FY2017 as compared with 4.0% FY2016. The reason was mainly attributable to the higher revenue outweighing the increase in the overall selling and marketing costs.

Salary costs in FY2017 was HKD30.6 million, an increase of HKD6.1 million, or 24.9% compared with HKD24.5 million in FY2016. This increase was primarily attributable to the combined effect of (i) the Group bolstering efforts to hire additional staff for the sales team to seek new business opportunities in the industrial applications businesses and consumer electronics business; and (ii) an increase in salaries.

Amortization charges in FY2017 was HKD3.5 million, as compared with nil in FY2016 due to the amortization of intangible assets arising from the acquisition of passive optical networking products business unit of Titan Photonics, Inc. on 12 October 2016.

Travelling expenses in FY2017 was HKD4.6 million, an increase of HKD1.4 million, or 43.8% compared with HKD3.2 million in FY2016. It rose in step with the rising sales in FY2017.

Research and Development Expenses

Research and development ("R&D") expenses in FY2017 were HKD230.8 million, HKD43.0 million or 22.9% higher compared with HKD187.8 million in FY2016. The rise in R&D expenses was mainly due to (i) the increase in salary costs for the R&D engineers; (ii) the increase in raw materials consumed in R&D projects; and (iii) the increase in share options/share awards expenses. However, R&D expenses as a percentage of revenues decreased to 11.3% in FY2017 as compared with 11.7% in FY2016. This was mainly due to the increase in revenue outweighing the increase in R&D expenses.

The salary costs for R&D engineers was HKD112.6 million, representing an increase of HKD18.4 million, or 19.5% as compared with HKD94.2 million in FY2016. The increase was primarily attributable to the combined effect of (i) the increase in hiring of R&D engineers for the optical networking business; and (ii) higher salaries.

Raw materials consumed in the R&D projects in FY2017 was HKD79.6 million, representing an increase of HKD19.6 million, or 32.7% as compared with HKD60.0 million in FY2016. The increase was primarily attributable to (i) the rising investments in R&D projects; and (ii) the increase of expenses for purchasing raw materials for preparation of prototype and samples, especially the 100GbE mini ICR, 10 X 10 TOSA & ROSA and 100GbE QSFP28 CWDM4 products.

Share options/share awards expenses in FY2017 was HKD10.0 million, representing an increase of HKD3.5 million, compared with HKD6.5 million in FY2016. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in FY2017.

Administrative Expenses

Administrative expenses in FY2017 were HKD177.1 million, which was 0.2% lower, compared with HKD177.5 million in FY2016. The drop of administrative expenses in FY2017 was primarily attributable to the implementation of effective cost control measures by the Group. Administrative expenses as a percentage of revenue decreased to 8.7% in FY2017 as compared with 11.1% in FY2016. The decrease was mainly due to the increase in revenue.

Finance Income/Expenses

Finance income in FY2017 amounted to HKD2.1 million, representing a decrease of HKD7.1 million, compared with HKD9.2 million in FY2016. The decrease in finance income was primarily due to the net effect of (i) the impact of the weaker USD (for entities within the Group using RMB as functional currency) on net effect of cash and bank balances and bank borrowings, the exchange difference increased by HKD8.4 million due to the foreign exchange loss of HKD3.1 million in FY2017 as compared with the exchange gain of HKD5.3 million in FY2016; and (ii) the increase in interest income of HKD1.3 million.

Finance expense in FY2017 amounted to HKD26.0 million, representing an increase of 66.7% as compared with HKD15.6 million in FY2016. The increase in finance expenses of HKD10.4 million was primarily due to the increase in interest rate.

Share of Result of a Joint Venture

The share of result of a joint venture ("JV") was nil in FY2017, with HKD1.5 million in FY2016 due to disposal of the JV in October 2016.

Profit Before Tax and Profit Before Tax Margin

Profit before tax of HKD248.9 million was recorded in FY2017, representing an increase of HKD94.5 million, or 61.2% as compared with HKD154.4 million in FY2016. The increase in profit before tax in FY2017 was primarily due to the rise of revenue from all businesses of the Group.

Profit before tax as a percentage of total revenue, namely profit before tax margin, climbed from 9.7% in FY2016 to 12.2% in FY2017. The increase in profit before tax margin was primarily due to the decrease in selling and marketing costs, R&D expenses and administrative expenses as a percentage of the Group's revenue as described above.

Income Tax Expenses

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

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

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

Income tax expenses in FY2017 amounted to HKD43.1 million, representing an increase of HKD17.5 million or 68.4% from the income tax expenses of HKD25.6 million in FY2016. The rise in income tax expenses was due to the increase in profit before tax in FY2017.

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

Profit attributable to equity holders of HKD208.9 million was recorded in FY2017, while HKD130.6 million was recorded in FY2016. The higher in profit attributable to equity holders was primarily due to the rise of revenue from all businesses of the Group.

Profit attributable to equity holders as a percentage of total revenue, namely net profit margin, rose from 8.2% in FY2016 to 10.3% in FY2017. The increase in net profit margin was primarily due to the decrease in selling and marketing costs, R&D expenses and administrative expenses as a percentage of the Group's revenue as described above.

Non-GAAP Financial Performance

Non-GAAP Profit Analysis

Reconciliation of Non-GAAP Financial Measures

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

Management Discussion and Analysis

	Year ended 31 December	
	2017	2016
	HKD'000	HKD'000
Adjustment to Measure Non-GAAP Gross Profit		
Gross Profit	**726,473**	569,685
Adjustment Related to Cost of Sales		
(Write-back)/provision for inventory write-down	**(323)**	11,796
Non-GAAP Gross Profit	**726,150**	581,481
Adjustment to Measure Non-GAAP Net Profit*		
Net Profit*	**208,867**	130,603
Adjustment Related to Cost of Sales		
(Write-back)/provision for inventory write-down	**(323)**	11,796
Adjustments to Measure to Operating expenses		
Share options and share awards granted to directors and employees	**22,721**	17,082
Amortization of intangible assets	**13,835**	5,539
Adjustments to Other Gains — net		
Fair value gain on derivative financial instruments	**(422)**	–
Loss on disposal of a subsidiary	**59**	–
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*	**244,737**	162,040
Non-GAAP EPS		
— Basic	**0.33**	0.23
— Diluted	**0.31**	0.22
Gross Profit Margin	**35.7%**	35.6%
Non-GAAP Gross Profit Margin	**35.7%**	36.4%
Net Profit* Margin	**10.3%**	8.2%
Non-GAAP Net Profit* Margin	**12.0%**	10.1%

* Profit attributable to Equity Holders of the Company

Non-GAAP net profit for FY2017 was HKD244.7 million, or HKD0.33 per share, compared with non-GAAP net profit of HKD162.0 million, or HKD0.23 per share, reported for FY2016. Non-GAAP results for FY2017 exclude HKD0.3 million in write-back for inventory write-down, HKD22.7 million in share options and share awards granted to directors and employees, HKD13.8 million in amortization of intangible assets, HKD0.4 million in fair value gain on derivative financial instruments and HKD0.06 million in loss on disposal of a subsidiary. 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.

Prospects

Going forward, the Group is confident that it will make further advances in all of its businesses. 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 and 5G mobile market. As for the new businesses, the Group envisages its various sectors will steadily grow to become significant businesses, driven by the advent of its core technologies. The Group is more optimistic about developments on the machine vision systems, fiber laser systems and LiDAR fronts as each of these businesses will serve as catalysts for its progress and growth.

Optical Networking Business

Underpinned by innovation, the optical networking business was able to seize yet a greater market shares during the past year. Going forward, the Group remains highly optimistic that this business achieve make even greater inroads in a market projected to expand at a compound annual growth rate of 7% between 2016 and 2022. The telecommunications market is expected to advance further due to ongoing double-digit traffic volume growth which will drive development of network infrastructure 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 are expected to be the catalysts of growth in the data-communications market.

With strong growth forecasted for global telecommunications and data-communications, the Group has already taken measures to fast its position in both markets. In particular, given the fast pace of growth in its data-communications business, the Group is well on its way to introduce new iterations of advanced products to the market. In addition, the 100GbE AOC and 10 X 10 TOSA & ROSA products, have already been qualified by customers and have commenced shipments in 2017 while the 100GbE QSFP28 CWDM4 and 10GbE SFP have been launched at the end of 2017.

Industrial Applications 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" initiatives is set to have a significant and positive impact on the automation and digitalization industries in the coming years and beyond. Furthermore, while China's automaton industry is projected to be valued at approximately USD100 billion in 2020 according to an estimate, a large number of local Chinese enterprises continue to operate facilities from past industrial stages, hence the window of opportunity is immense. The Group therefore look to build on the successes by providing automation solutions, as well as offering machine vision systems and sensing products. The development of such products has begun in 2013, with products begin launched from 2015, and continuing to expand through new series of products to tap the opportunities generated by the trend towards Industry 4.0 in order to further penetrating to the intelligent, digital and networked manufacturing market.

In addition, by leveraging ITF's existing technology platforms and manufacturing capabilities, the Group continues to develop and launch new solutions for high power fiber lasers. The global fiber laser market is expected to record a CAGR of 12% from 2016 to 2022, reaching USD3.1 billion by 2022. To address this market, the Group will continue to be uniquely positioned by offering a broad range of fiber-based components and systems necessary for the fiber lasers — both for high power fiber laser and lower-power applications. Coupled with the ongoing development and introduction of additional components and modules 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, welding, as well as marking and engraving and additive manufacturing. This expansion of uses for fiber lasers continues to provide supplementary avenues for growth — the use of such lasers for micro-drilling and additive manufacturing offers additional outlets for the Group's broad base of discrete optical components, as well as mid-to high-power fiber laser systems. On this front, the Group expects to continue to outpace the market growth rate.

As one of the key components suppliers for the laser source module of LiDAR, the Group is optimistic about the future demand for these products. O-Net, along with 3SP and ITF continues to develop key optical components necessary for the successful deployment of cost-effective and high performance LiDAR solutions. In addition, the first generation cost-effective laser source module for LiDAR, 'PANDA', has been launched in September 2017. The Group is committed to continue the development of next-generation laser source module for LiDAR at a lower price point thereby making ADAS a more cost effective proposition to members of the automotive industry. The Group is confident that by leveraging its advanced LiDAR components and cost-effective laser source module for LiDAR, this business can serve as an additional revenue stream that can drive its overall revenue growth in the future.

Consumer Electronics Business

As for the consumer electronics business, which enjoys high gross margins and continues to gain growth momentum, the Group seeks to encourage business development by developing new coating technologies and applications. Building on the strong demand for quality high-end coating technologies for ceramic casing as well as color lamination for glass casing from smartphone manufacturers, the Group is striving to develop multi coating solutions and secure more new customers in order to expand its business scale and boosts its growth for many years to come.

While the Group has made significant progress in all of its businesses, 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.

Group's Liability, Financial Resources and Capital Structure

As at 31 December 2017, the Company's issued share capital was approximately HKD8.0 million divided into 798,467,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD2,033.1 million (31 December 2016: 1,428.7 million). The Group had current assets of HKD1,781.0 million and current liabilities of HKD1,053.2 million and the current ratio was 1.69 times as at 31 December 2017 (31 December 2016: 1.5 times). The Group's gearing ratio (calculated as total borrowings over total equity) was 32.2% at 31 December 2017 (31 December 2016: 49.9%).

On 21 April 2017, the Company (as issuer), O-Net Holdings (BVI) Limited and Kaifa Technology (H.K.) Limited (collectively the "Vendors" and each the "First Vendor" and the "Second Vendor"), and Jefferies Hong Kong Limited and Zhongtai International Securities Limited (collectively the "Placing Agents") entered into the placing and subscription agreement pursuant to which (i) the Placing Agents have agreed to act as agents for the Vendors to place, on a best efforts basis, and the First Vendor and the Second Vendor have agreed to sell, a total of up to 90,000,000 ordinary shares to not less than six placees who and whose ultimate beneficial owners were third parties independent of and not acting in concert (as defined under the Takeovers Code) with the Company and its associates and connected persons, at the placing price of HKD5.25 per Placing Share; and (ii) each of the First Vendor and the Second Vendor has agreed to subscribe for up to 25,000,000 ordinary shares and 25,000,000 ordinary shares respectively at the subscription price of HKD5.25 per share (the "Subscription"). On 5 May 2017, the Company has successfully placed 50,000,000 ordinary shares. The net proceeds from the Subscription were approximately HKD262.0 million. The net price per share was approximately HKD5.24. As at 31 December 2017, the net proceeds from the Subscription have been used for the purpose of acquisition.

As at 31 December 2017, the Group had cash and cash equivalents of approximately HKD320.7 million (31 December 2016: HKD169.3 million). The significant increase was due to proceeds from pledged bank deposit. The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

Pledge on Group Assets

As at 31 December 2017, the Group had bank deposit of HKD84.9 million which had been pledged as guarantee for payables to suppliers for purchasing of goods and machineries and for bank borrowings (31 December 2016: HKD354.4 million).

Capital Commitments and Contingent Liabilities

For 2017, the Group had committed to the expansion of existing plants and new plants to enhance its production capacity. As at 31 December 2017, the Group had contractual capital commitments of approximately HKD15.9 million (31 December 2016: HKD8.3 million). As of 31 December 2017, the Group had not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

Capital Expenditure

For 2017, the Group's capital expenditure on property, plant and equipment consisted primarily of additions to building, plant and machinery, office equipment and construction in progress of approximately HKD240.9 million (31 December 2016: HKD101.9 million).

Exposure to Fluctuations in Exchange Rates and Related Hedge

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

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

Management Discussion and Analysis

Employee Benefits

As at 31 December 2017, the Group had a total of 4,760 employees (31 December 2016: 3,680). The Group's staff costs (including Directors' fees) amounted to HKD501.6 million (31 December 2016: HKD414.7 million). The remuneration policy of the Group is reviewed annually by the remuneration committee of the Company and is in line with the prevailing market practice.

The Group has provided its employees medical insurance, work-related personal injury insurance, maternity insurance, and unemployment insurance, each as required by Chinese laws and regulations.

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

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

Final Dividend

The Board does not recommend any final dividend for FY2017 at the upcoming annual general meeting of the Company.

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, 1 June 2018 ("2018 AGM"), the register of members of the Company will be closed from Monday, 28 May 2018 to Friday, 1 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2018 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 Friday, 25 May 2018.

Significant Investments Held and Material Acquisition

On 21 April 2017, O-Net Communications Holdings Limited ("O-Net Communications"), a wholly-owned subsidiary of the Company, entered into the formal sale and purchase agreement (the "Formal Agreement") with Advance Photonics Investments Limited ("API") in relation to the acquisition by O-Net Communications of the entire issued share capital of 3SP at a consideration of approximately USD19.9 million (the "Acquisition"). The completion of the Acquisition is conditional pursuant to the terms of the Formal Agreement. 3SP is principally engaged in research, development, manufacturing and supplying of innovative chips and laser products for telecommunications and data-communications as well as innovative high-end markets such as LiDAR for ADAS market.

O-Net Communications has also purchased from API the total amount of indebtedness due and owing by API to a bank in the amount of 3,600,000 Euro with unpaid outstanding interest and all bank balances of API as at the date of the Formal Agreement on a dollar for dollar basis.

As at the date of this announcement, the Acquisition has not yet been completed.

Details of the Formal Agreement and the Acquisition are set out in the announcement made by the Company dated 21 April 2017.

Save as aforesaid, the Group did not have any significant investment held nor there were any other material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2017.

Future Plans for Material Investments/ Capital Assets and Source of Fund

As at 31 December 2017, the Group maintained sufficient funds for the capital investment and operations for the coming year.

Material Event Since the End of the Financial Year

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

Biographical Details of Directors and Senior Management

Executive Director

Mr. Na Qinglin

Mr. Na, aged 51, 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 (the "Remuneration Committee") of the Company. 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 OB Technologies (Hong Kong) Limited since 2008 and 2016 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 is currently a director of Innovision FlexTech Corporation, a company whose shares are traded on Emerging Stock Board of Taipei Exchange.

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

Non-Executive Directors

Mr. Chen Zhujiang

Mr. Chen, aged 50, was appointed as a non-executive Director on 30 November 2009. He is also a director of O-Net Communications (Shenzhen) Limited, a wholly-owned subsidiary of the Company. As a non-executive Director of the Company, he is not involved in the day-to-day operations of the Group. He is engaged in providing 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 Shenzhen Kaifa Technology Co., Limited (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.

Biographical Details of Directors and Senior Management

Mr. Huang Bin

Mr. Huang, aged 57, was appointed as a non-executive Director on 30 November 2009. He is a member of each of the Remuneration Committee and the Nomination Committee of the Company. He is also a director of O-Net Communications (Shenzhen) Limited, a wholly-owned subsidiary of the Company. As a non-executive Director of the Company, he is not involved in the day-to-day operations of the Group. He is engaged in providing financial and investment advice to the Group.

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

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

Mr. Mo Shangyun

Mr. Mo, aged 51, was appointed as a non-executive Director on 8 January 2018. 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, Mr. Mo is not involved in the day-to-day operations of the Group. He is engaged in providing financial advice to the Company.

Mr. Mo is currently the vice president and chief financial officer of Shenzhen Kaifa Technology Co., Ltd. ("Kaifa", a company listed on the Shenzhen Stock Exchange, Stock Code 000021), and chairman of the board of directors or director of certain subsidiaries of Kaifa. Mr. Mo previously worked as a senior manager at the Finance Department of Kaifa and in October 2004, he became the chief financial controller of Kaifa. Subsequently, he has been a vice president of Kaifa with effect from January 2014. Mr. Mo is also a director of Dongguan Chitwing Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange, Stock Code 002855).

Mr. Mo majored in corporate finance at the Graduate School of Fiscal Science under the Ministry of Finance (now known as "Chinese Academy of Fiscal Science"). He holds a master's degree in economics. He is also a senior accountant in Guangdong Province, the People's Republic of China (the "PRC") and a registered accountant in the PRC.

Independent Non-Executive Directors

Mr. Deng Xinping

Mr. Deng, aged 51, 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 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 48, 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 27 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 each of Man Wah Holdings Limited (Stock Code: 1999), Denox Environmental & Technology Holdings Limited (Stock Code: 1452) and Nameson Holdings Limited (Stock Code: 1982) and a non-executive director of Vico International Holdings Limited (Stock code: 1621), all four companies are listed on the main board of the SEHK. Mr. Ong is also a non-executive director of Prosperous Printing Company Limited (Stock Code: 8385) and an independent non-executive director of Smart Globe Holdings Limited (Stock Code: 8485), both companies are listed on the Growth Enterprise Market 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 GEM of the SEHK.

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 53, 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 25 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 64, 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.

Biographical Details of Directors and Senior Management

Dr. Liu Yi-Cheng

Dr. Liu, aged 55, is the Vice President of Global Operations. He is responsible for supervising overall manufacturing operations, including production, engineering and supply chain management. He joined the Group in March 2017.

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..

Dr. Yu Aihua

Dr. Yu, aged 60, 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 on 16 April 2004.

Dr. Yu has over 35 years of solid experience 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 inventor or co-inventor 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.

Ms. Xie Hong

Ms. Xie, aged 55, is the Vice President of Research and Development – Passive Components and Devices. She is responsible for overseeing the development of passive optical components and devices and leading the Group's R&D team in Hangzhou, China. She joined the Group on 3 January 2001.

Ms. Xie has been in the fiber optic research field since graduating with a Bachelor's degree from Zhejiang University, China in 1983. She completed her Master's degree at Zhejiang University in 1988. From 1983 through 1997. Ms. Xie was a faculty member at Zhejiang University, teaching optical engineering courses. She joined Shenzhen Kaifa's fiber optic department in August 1999, after returning from a stint as a visiting scholar at the University of Illinois, U.S.A..

Dr. Kan Jiaxi

Dr. Kan, aged 75, is the Chief Scientist of the Group. He is responsible for developing Group's next-generation high-speed transmission products for the high-growth data and telecommunications markets. Dr. Kan is based in the Group's R&D center in Silicon Valley of the U.S.. He joined the Group on 21 March 2016,

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 JDSU, 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 Telecommunications System from Shanghai Jiao Tong University, and a Ph.D. degree in Optical Fiber Telecommunications from Technical University of Denmark.

Dr. Gong Zhigang

Dr. Gong, aged 49, 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 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 56, 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 24 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 Telecommunications Research Labs of the University of Alberta, Canada.

Mr. Tan Boon Thong

Mr. Tan, aged 48, 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.

Mr. Kung Sze Wai

Mr. Kung, aged 45, 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 14 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.

Dr. Shen Fei

Dr. Shen, aged 38, is the Vice President of Automation Division of the Group. Dr. Shen is responsible for overseeing new product development, manufacturing and business development of Automation Division and leading our team to develop automatic production equipments and advanced vision inspection systems. He joined the Group on 1 July 2012.

Dr. Shen has over 15 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.

Mr. Fotis Konstantinidis

Mr. Konstantinidis, aged 59, was appointed as Chief Executive Officer of ITF Technologies Inc. (formerly known as "Avensys Inc.", together with its subsidiaries, "ITF") a wholly-owned subsidiary of the Company, on 12 January 2015. Mr. Konstantinidis joined the Company as Vice president of Marketing for industrial and optical networking products on 12 November 2014. Mr. Konstantinidis is responsible for overall management team and daily operations of ITF.

Mr. Konstantinidis has over 28 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.

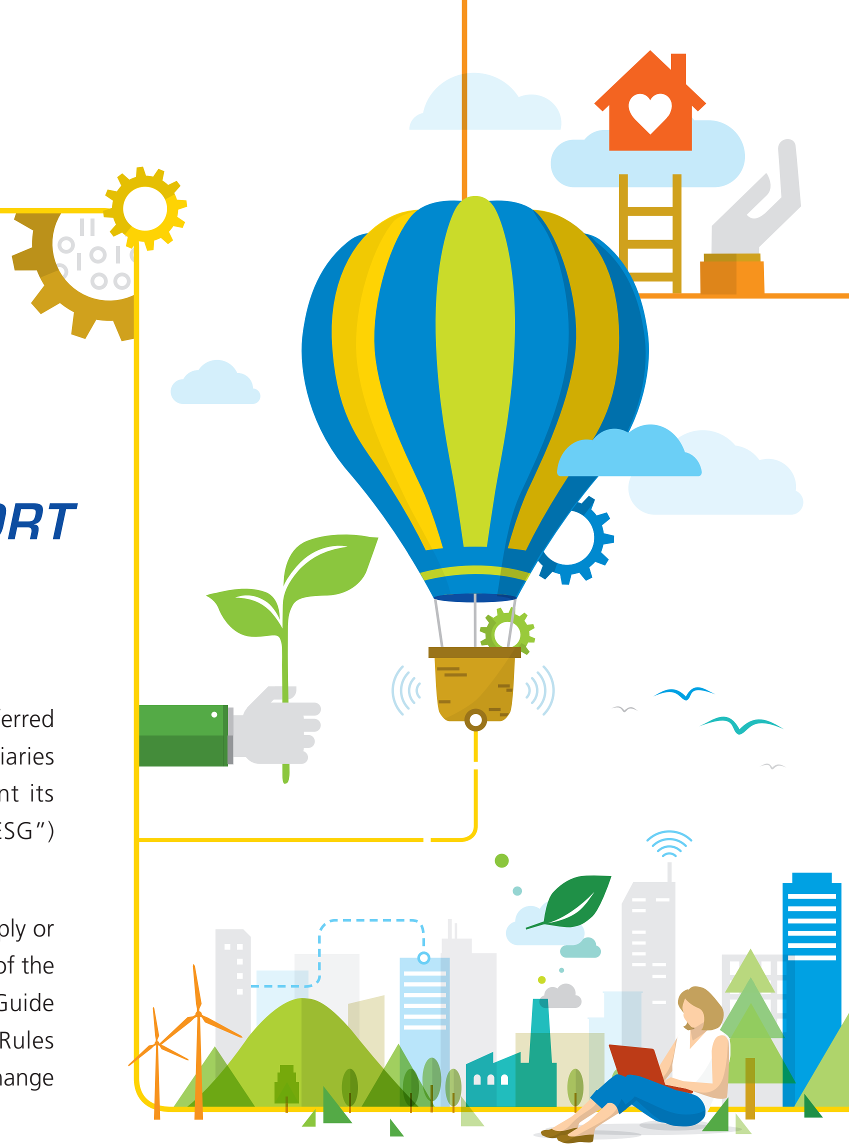
Mr. Nigel Holehouse

Mr. Holehouse, aged 58, is the Vice President of Product Engineering of ITF, where he is in charge of its research and development department. He joined ITF on 1 September 2004.

Mr. Holehouse has over 28 years of solid experience in the telecommunications, sensing and fiber laser markets. Prior to joining ITF Labs, Mr. Holehouse held several positions of Co-Founder, Director of Operations and Vice President of Packaging Engineering for Alfalight, Inc.

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

Environmental, Social and Governance Report



About This Report

O-Net Technologies (Group) Limited (hereinafter referred to as "O-Net" or the "Company"), and its subsidiaries (collectively, the "Group"), are pleased to present its second Environmental, Social and Governance ("ESG") Report (the "Report").

This Report is prepared in accordance with the "comply or explain" and "recommended disclosures" provisions of the Environmental, Social and Governance Reporting Guide ("ESG Guide") contained in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The purpose of this Report is to introduce the Group's sustainability vision, policies and initiatives, as well as to disclose its performance in various environmental and social aspects. The Group is committed to disclose such data on an annual basis, in a transparent and responsible manner.

Reporting Scope

The scope of this Report covers the Group's factory complex operations in Shenzhen Pingshan (the "Reporting Scope"). Similar to last year, the scope this year continues not to include Hong Kong office, as management finds the Hong Kong office operations to be less material than its production operations in Shenzhen.

Reporting Period

This report presents our sustainability performance in the financial year 2017 ("FY2017") from 1 January 2017 to 31 December 2017, unless otherwise specified (the "Reporting Period").

Reporting Framework

The Stock Exchange's ESG Guide.

We highly value your feedback on this Report and on our sustainability performance. Please feel free to provide us with your feedback by post to our principal place of business in Hong Kong: Unit 1608, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong or by email at ir@o-netcom.com.

About O-Net

Founded in 2000, O-Net is a leading company in the high technology industry with diversified engagement in design, production and sales of optical networking products, automation equipment, machine vision systems and sensors, and touch panel products. Growing and expanding steadily, the Group was officially listed on the Main Board of the Stock Exchange in April 2010.

Since then, the Group has been recognized for our contribution in innovation, as well as research and development ("R&D") in the communications industry. Our corporate success and devotion to green development are also well recognized. Support from our shareholders and our esteemed staff is indispensable for making these strides in this ever-changing and fast-growing industry. Therefore, these awards are dedicated to all of our stakeholders who contributed to the prosperity of O-Net:

* The Top 100 enterprises of China's Communications Industry in 2017

O-Net has three core business divisions, namely, optical networking business, industrial applications businesses, and consumer electronics business.

Optical Networking Business

The Group has two major business divisions in the optical networking business, which are the telecommunications business and the data-communications business. They together generate approximately 79% of the Group's FY2017 revenue. These business division specialise in the provision of passive and active optical networking products which have broad features, including optical bandwidth expansion, optical signal amplification, and wavelength performance monitoring and protection etc.

Industrial Applications Business

The Group has over 10 years in designing and manufacturing automated production lines and is now actively expanding to the supply of automation solutions for E-cigarette industry. The Group also engaged in machine vision business, industrial laser business and LiDAR business.

Consumer Electronics Business

The Group is seizing the emerging cell-phone market in China to develop its consumer electronics business. This business division provides anti-reflective, anti-fingerprint and colour lamination coating services. This business division enjoys significant revenue growth due to the strong demand from the Chinese smartphone market.

Our Vision and Mission

We strive to:

- Help our customers create corporate value
- Assist our employees to establish their career
- Facilitate growth of our suppliers and peers
- Make contributions to the local community
- Create returns to our shareholders

Our Sustainability Strategy

- Comply with national and local regulations
- Respect human rights
- Ensure satisfactory working and living environment standards
- Protect occupational safety of employees
- Construct a harmonious employer-employee relationship
- Promote green operations
- Adhere strictly to codes of conduct
- Carry out continuous improvement

Sustainability Governance

As one of our mottos goes, "Strive hard. It is the essence of everything". It demonstrates our attitude towards corporate sustainability — not only do we fulfil our social and environmental obligations as a corporation, we strive for excellence within our capabilities. Led by our Board of Directors (the "Board"), we have three dedicated committees and units, which oversee the Group's social responsibility, environmental impacts, occupational health and safety performance, as well as product quality. The structure of our sustainability governance and the respective responsibilities of the committees are shown below.

THE BOARD

Social Responsibility Management Committee (社會責任管理委員會)

- Implement and monitor the Group's social responsibility assurance and occupational health and safety plans
- Supervise and regularly check the social responsibility performance and occupational health and safety work

Environmental and Occupational Health and Safety Committee (環境職業健康安全委員會)

- Identify and manage important environmental factors and risks
- Conduct compliance review
- Manage and monitor the emission of sewage, air pollutants; use and handling of chemicals; and fire safety
- Conduct safety and environmental training

Quality, Environment and Occupational Health and Safety Management System Planning Unit (質量、環境、職業健康安全管理體系策劃小組)

- Formulate and evaluate implementation plans of the quality, environment, and occupational health and safety management system

The Social Responsibility Management Committee's (the "Committee") role is to implement, monitor and supervise the Group's plans and initiatives relating to social responsibility, and occupational health and safety. The Group also has a comprehensive social responsibility management manual to define the responsibility of the Committee on the issue, as well as to set out the Group's sustainability strategy. The manual specifies that the Committee is responsible to publish an annual Social Responsibility Management System Audit Report (社會責任管理體系評審報告), which allows the Group to regularly review and evaluate its performance on fulfilling its corporate social responsibility in a systematic and analytical manner.

In addition to social security, the Group sets multiple key performance indicators (KPI) annually with respect to product quality, environment, and occupational health and safety, with adjustments to past departmental performances. Immediate rectifications are required had the targets not been met, while the standards are reviewed and adjusted regularly. This management practice effectively ensures continuous improvement in our operations, which in turn drives us towards a more efficient, safer and greener future.

With the above comprehensive management system, together with the tireless effort of our staff, we have already obtained various international standard certifications. In the future, we shall continue to advance and collaborate with our suppliers, clients, employees and community, for the sustainable development of the Group.

In 2017, we have continued to be certified under the following international certifications:

- ISO 9001 Quality Management System
- ISO 14001 Environmental Management System
- TL 9000-H Quality Management System
- OHSAS 18001 Occupational Health and Safety Management Certification
- Current Good Manufacturing Practice Regulation (CGMP) Management System

We also obtained a new certification regarding energy management in December 2017:

- ISO 50001 Energy Management System

Anti-corruption

We have formulated strict guidelines and regulations towards corruption, bribery and fraud to achieve absolute compliance to anti-corruption. We have set high expectations and requirements on our employees' conduct and behaviour as part of the O-Net family — "Do the right thing" is what we persist and emphasize within the Group.

Acceptance of significant advantage is prohibited without acknowledgement and permission from the Group. To assist our staff in understanding our Codes of Conduct, as well as to dispel their doubts on related issues, our Group's has set up a "moral line" (道德專線) for staff to call or email if they have questions on receiving advantages or reporting material conflicts. Apart from resolving doubts, the line also welcomes reports on suspicious corruption cases for further internal investigation.

In case of misconduct or when any relevant law is breached, employees can report the non-compliance case to either the legal department or the human resource department. When misconduct is discovered internally, the Group may report to the authority, dependent upon the severity of the breach.

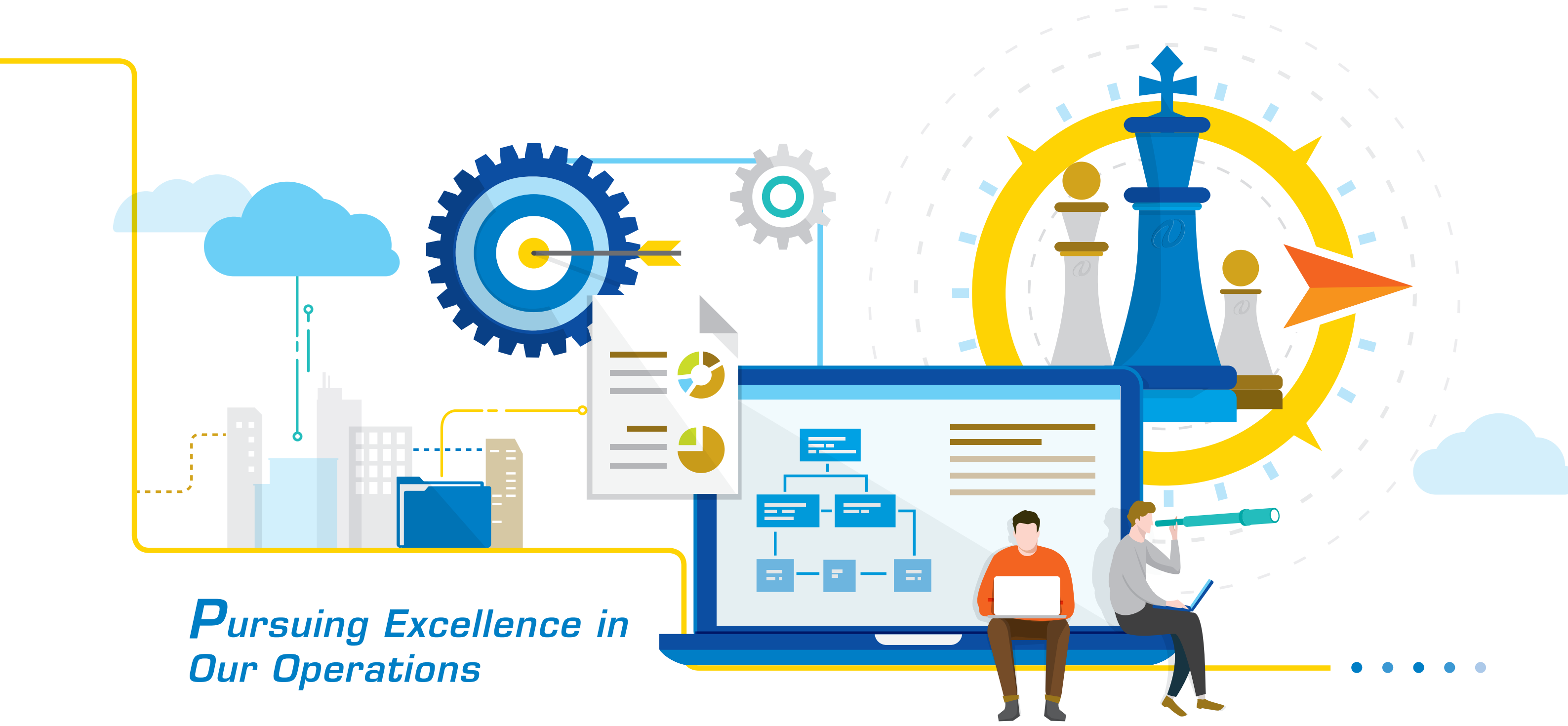
No cases relating to corrupt practices was discovered during the Reporting Period.

Stakeholder Engagement

At O-Net, we value the opportunities to stay connected with our stakeholders, as we believe communication is the key to efficient, solid and sustainable corporate management. Our Group has therefore established various channels to proactively facilitate communication with our internal and external stakeholders, to ensure our sustainability strategies not only meet their expectations, but also to exceed them.

In addition to the traditional engagement means, we have expanded our engagement channels to "WeChat", a popular social media platform in China, in 2017. Our employees and the general public can receive instant news and announcements on the topics of corporate news, staff activities, and job vacancies through the platform. It also allows text communication between our Group and its followers, which greatly enhanced the ease of communication when compared to formal engagement channels.

Stakeholders	Material Issues Concerning Stakeholders	Engagement Channels
Shareholders and investors	• Financial performance • Strategic plans • Operational compliance	• General meetings • Interim and annual reports • Social media platform
Employees	• Occupational health and safety • Benefits and remunerations • Development and training • Labour rights • Working condition and welfare	• Career, developmental and safety training • Events with employees • Newsletter • Regular meeting with staff representatives • Social media platform, intranet • Notice boards, message boxes
Customers	• Product quality and safety • Operational compliance • Customer services and support • Sustainability strategies	• Customer satisfaction survey • Customer visits • Industry exhibitions • Meetings and correspondences
Suppliers	• Production safety • Business conduct • Operational compliance	• Tender procedures and meetings • Regular review and assessment • Industry exhibitions
Community	• Support to society • Environmental impacts • Operational compliance	• Community activities involvements
Government bodies	• Operational compliance • Environmental impacts	• Visits and inspections



Pursuing Excellence in Our Operations

At O-Net, we strive to attend to quality assurance by continuously upgrading our operational management systems. The Group considers quality, efficiency and safety in production as the premise of sustainable corporate development. We therefore follow and refer to international standards when formulating our operational policies to develop an integrated management system, which is certified in the following management standards:

- ISO 9001 Quality Management System
- ISO 14001 Environmental Management System
- TL 9000-H Quality Management System
- Current Good Manufacturing Practice Regulation (CGMP) Management System
- OHSAS 18001 Occupational Health and Safety Management System
- ISO 50001 Energy Management System

Efficient and Quality Production

O-Net endeavours not only to produce high quality products that comply with international and local quality and safety standards, but also to adopt and incorporate automation in the course of production, in order to enhance efficiency and reduce occupational risks. We uphold our high standard by implementing a well-designed quality management system and comprehensive quality assurance policies, to guarantee quality and efficiency.

Raw Material Check

We begin our exhaustive quality inspections with our incoming material, which allows for verification of compliance to international standards and O-Net's internal standards before they enter into the production line.

We have a systematic database that stores all information of our incoming material, such as material nature and purchase quantity, and to automatically calculate the number of random samples needed to be sent to inspection. In 2017, we introduced an additional calculation factor of supplier ratio, which considers suppliers' record in raw material quality.

Inspection results will remain in the system for future references as well as for the generation of Supplier's Incoming Material Report (供應商來貨檢驗報告). In the coming year, we plan to continuously refine our report content by including more elements into account.

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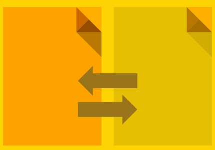
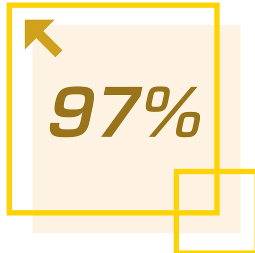


Automated Storage System

The massive amount of daily incoming raw material requires large storage space. Hence, it is crucial for us to process them in a time-efficient, human resource-efficient and space-efficient manner.

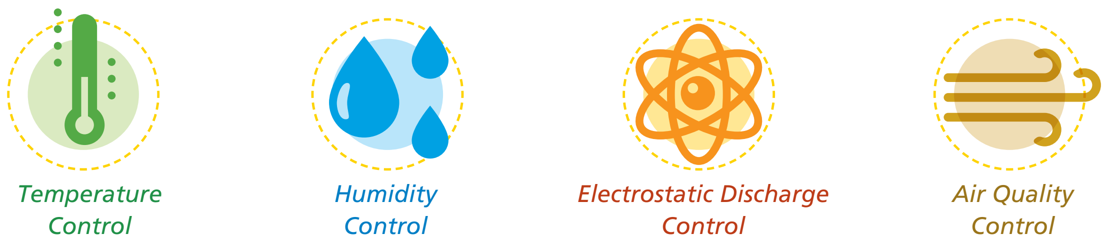


* We reduce 97% of the human error with the automated storage system.

Since 2012, we have been using a highly automated storage system to manage our inventory stocks. With the aid of the system, the only step that requires our staffs' physical work is scanning of barcode on the material. The system will then process the information, assign a designated storage space, transport it to the assigned location, and automatically save its last location onto the system. Not only can this 5-storey compact automated storage system protect our staff's occupational health and safety by avoiding manual labour, it also reduces human error and foster efficiency in terms of space and time.

Advanced Technology and High-Quality Production

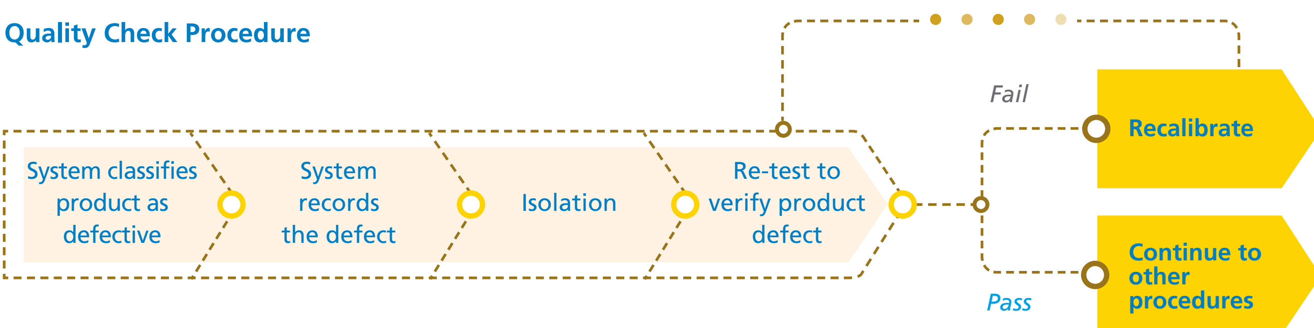
We are aware that to produce high-tech products of the best quality, a stable and clean environment is required. Hence, a clear guideline on the maintenance of an ideal work environment is developed as a reference for our employees. To ensure the standards are met, equipment including humidifiers, air filters and air shower rooms are installed in our production workshops. Employees are obliged to wear work uniforms and perform regular housekeeping at their workstations.



Every product in our production line is attached with a barcode, which enables us to trace the details of its production process, including the workers involved and the results of quality inspections. This greatly improves our effectiveness on quality assurance as it is now easier to keep track of the specific procedure that might have led to product defect, when occurred.

In addition, our products will undergo multiple automated quality inspections in the production process. The automation technology provides us with a great advantage to minimise human error during the inspection process, and consequently, a higher certainty on the quality of products.

Quality Check Procedure



Innovative Ideas and Actions

In this constantly advancing and changing industry, we value innovations and new ideas as much as we value our product quality. Our Group believes that technological research and development can bring us breakthroughs in the industry and accelerate our corporate growth.

Product Innovations

To better manage our innovations and intellectual property rights, a review panel is set up to review, promote and supervise related issues. All innovation proposals brought in will be reviewed according to internal standards, and will be decided if the process should be continued for patent applications. O-Net has also developed a reward system to encourage innovations, cash rewards will be given out to the proposers after patent application and patent approval respectively.

Operational Innovations

Not only do we design products for our customers, we also encourage our staff to innovate and create new operational systems to improve production efficiency.

During the Reporting Period, the Group has applied for a total of 76 patents, including 25 utility patents, 43 invention patents and 8 PCT (Patent Cooperation Treaty) patents. Among them, 7 patents were approved, including 3 utility patents and 4 invention patents.

In 2017, our staff developed a smart infrared storage system to reduce the time and effort to manage product storage, ranging from looking for a storage location to manually entering locational data into the system. Infrared sensors are installed on storage shelves and a trolley. When the trolley travels through shelves, the computer system can automatically obtain information on stocking condition and instantly allocate an empty storage space to the goods. With this top of the line self-innovated storage system, processing time can therefore be reduced along with human errors.

To encourage innovations and to facilitate "Continuous Improvement" in production efficiency and quality, the Group holds internal competitions for the implementation of creative ideas. Attractive cash rewards will be given to 6 innovative ideas every quarter, while the best innovations of the year will be presented at the annual dinner.

The freedom our Group grants for our employees to innovate and create higher efficiency in their operations has been well received. Not only does it improve their efficiency and accuracy, it also induces a sense of pride among our colleagues. Some innovations are even mirrored in other departments, creating synergy and an innovative company culture.

Building a Sustainable Supply Chain System

The Group recognises the importance of a well-managed supply chain system to corporate success, as well as to our drive to sustainable development. When managing the supply chain, not only does the Group aspire to regulate its suppliers to achieve operational stability, it also aims to go beyond to influence and assist its suppliers to improve their sustainability performances.

Supplier Management

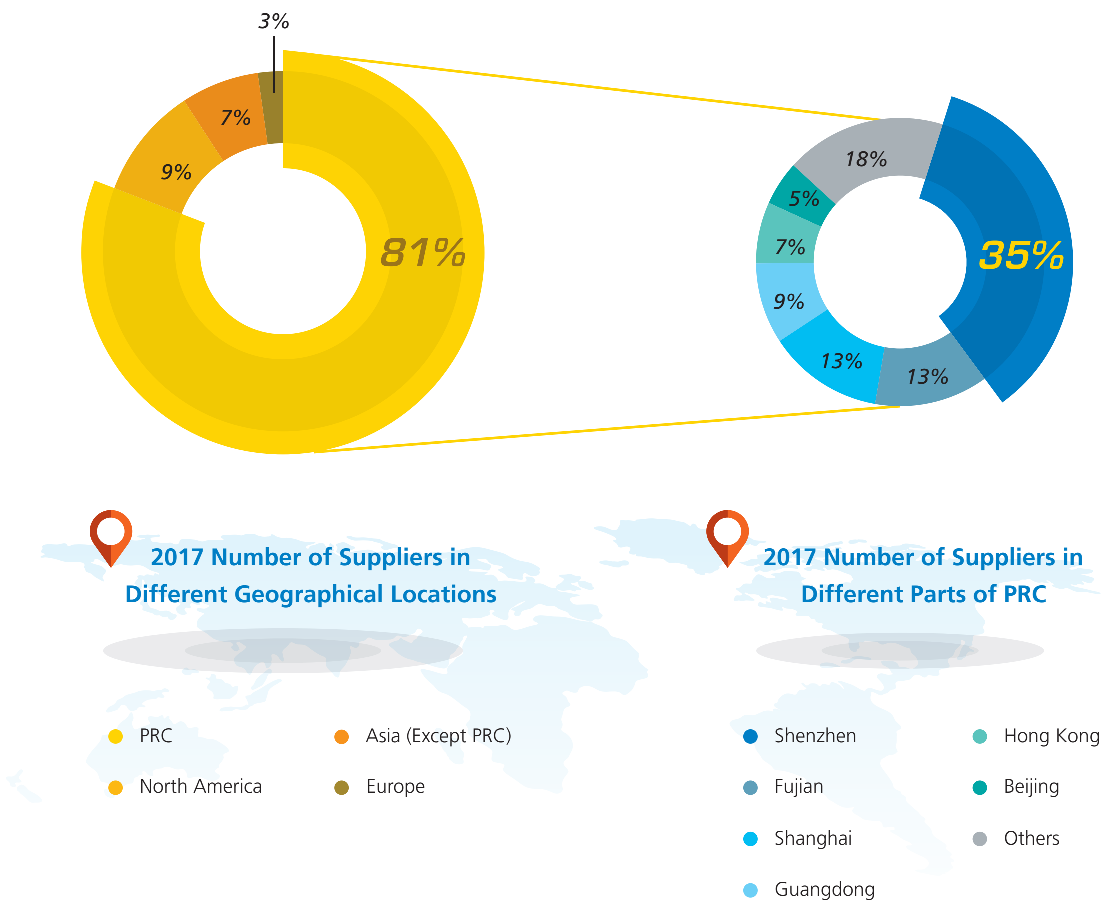
The Group selects its suppliers based on virtues. As a rule of thumb, our suppliers must be equipped with ISO 9001 certificate and the Group prioritises those certified with other international standards, such as TL 9000-H. Questionnaires and self-evaluation forms are sent to potential suppliers to preliminarily assess their quality and operational management system. Assessment criteria consists of five principal areas, which are "Quality System", "Social Responsibility", "RoHS", "Environment, Health and Safety", as well as "Operation Management".

There are two categories of important materials that require extra care in the supply chain system: the valuable ones, and the ones with limited market supply. To minimize operational and financial risks, the Group planned to enlarge the supplier base of 12 important materials and has succeeded in improving 8 of them in 2017. In the coming year, the Group will continue to revise its supply chain system to provide a more stable and reliable environment for corporate growth.

In 2017, the Group had a total of 68 suppliers of important materials. Among them, around 30% of the suppliers are local in Shenzhen, while others are in other areas in China, U.S., Canada, Japan, Taiwan and Germany. We conduct performance assessment to these suppliers at least once a year, in which we evaluate their performance on product quality, price level, delivery and coordination with our Group. In 2017, we have 21 "A-grade" suppliers, 43 "B-grade" suppliers, and 4 "C-grade" suppliers.

68

In 2017, the Group had a total of 68 suppliers of important materials.



A Transparent, Green and Socially-Responsible Supply Chain

Transparent

The Group strives to maintain a merit-based procurement mechanism that is free of corrupt human manipulation. Certain number of procurement cases are randomly selected and examined each month to assess misconduct. When violation is discovered and verified, a report detailing the event will be internally published for the investigation by senior management, while the corruption case will be handed over to the human resource department for disciplinary actions. As a result of our potent management, no malpractices were reported during the Reporting Period.

Hazardous Substance Free (HSF)

To regulate supplier's use of environmentally-harmful substance, all suppliers from the approved vendor list must comply with the non-use of environmentally hazardous substance as set out in "REACH substance of very high concern (SVHC) list" and RoHS (electrical and electronic equipment). In case of non-compliance to RoHS for all incoming materials, it will be returned to the supplier while the coefficient for inspection will be raised for materials from the same supplier, or material of the same nature. During the Reporting Period, a total of 13 batches of incoming materials failed the RoHS compliance testing, and they have all been handled diligently.

Corporate Social Responsibility

The Group puts great emphasis on managing its social responsibility globally through overseeing its suppliers' ways of production, in order to achieve sustainability within supply chain. All suppliers from the approved vendor list shall sign a corporate social responsibility agreement, which regulates a wide range of terms with reference to international and industry standards, including labour rights, workplace health and safety, and corporate Codes of Conduct etc. More importantly, the agreement requires suppliers to refer to multiple additional international standards, such as ISO 14001, OHSAS 18001, SA 8000, EICC and ISO 26000, to establish and evaluate their management systems according to the principles of sustainable development.

Conflict Free Metal

In order to fulfil our corporate social responsibility, we require our suppliers to monitor and regulate their use of rare metals, including cassiterite, wolframite, coltan, iron, and gold ores, extracted within Democratic Republic of the Congo and its neighbouring countries and regions, also referred to as the conflict metals. We perform investigations and verifications on suppliers on our approved vendor list using the EICC-GeSI Conflict Minerals Reporting Template. In 2017, 65% of our suppliers were verified to use conflict-free material only.

Customers Oriented

Support from our customers is vital to sustain our corporate growth. At O-Net, we are dedicated to supporting our customers' corporate development by providing them with excellent products and services, as well as to protect their confidentiality in this fast-changing industry.

Customer Satisfaction

Customer service excellence is our mission and priority. The Group conducts customer satisfaction survey annually to monitor and manage its service performance, the results of which will then be analyzed and published as a report for review and improvement. The survey covers 10 aspects including "Communications", "Product Quality", "Service Quality", "Cost" and "Flexibility". For every individual item under the survey that is scored as "unsatisfactory" or below, remedy and follow-up investigations are required to ensure improvements are made accordingly. Within the Reporting Period, we have engaged 20 customers and the overall satisfaction result is 88% (2016: 85%), which meets the 2017 KPI requirement. Among the 10 aspects, the Group performed the best in "Communications", indicating that the Group is accessible when needed, and can respond to inquiries promptly and effectively. On the other hand, the Group experienced the greatest improvement in "Service Quality", which was the focus area for enhancement from last year's satisfaction survey.

Customer Care Services and Complaint Handling

The Group provides technical support to its customers within warranty period, whereas the concerned departments are obliged to cater to individual customers technical needs at all times within 24 hours upon receiving the support request.

As for complaint handling, a similar time limit is also set up internally to ensure all customers' discontent is responded in a timely and effective manner. Under normal circumstances, the Group requires its staff to acknowledge all customer complaints within 24 hours, and to complete a problem resolution process report within 10 working days as set out in the "Customer Complaint and Return Policy" (客戶投訴及退貨處理). We strictly comply with these internal standards and will report to senior management when the standards are not met.

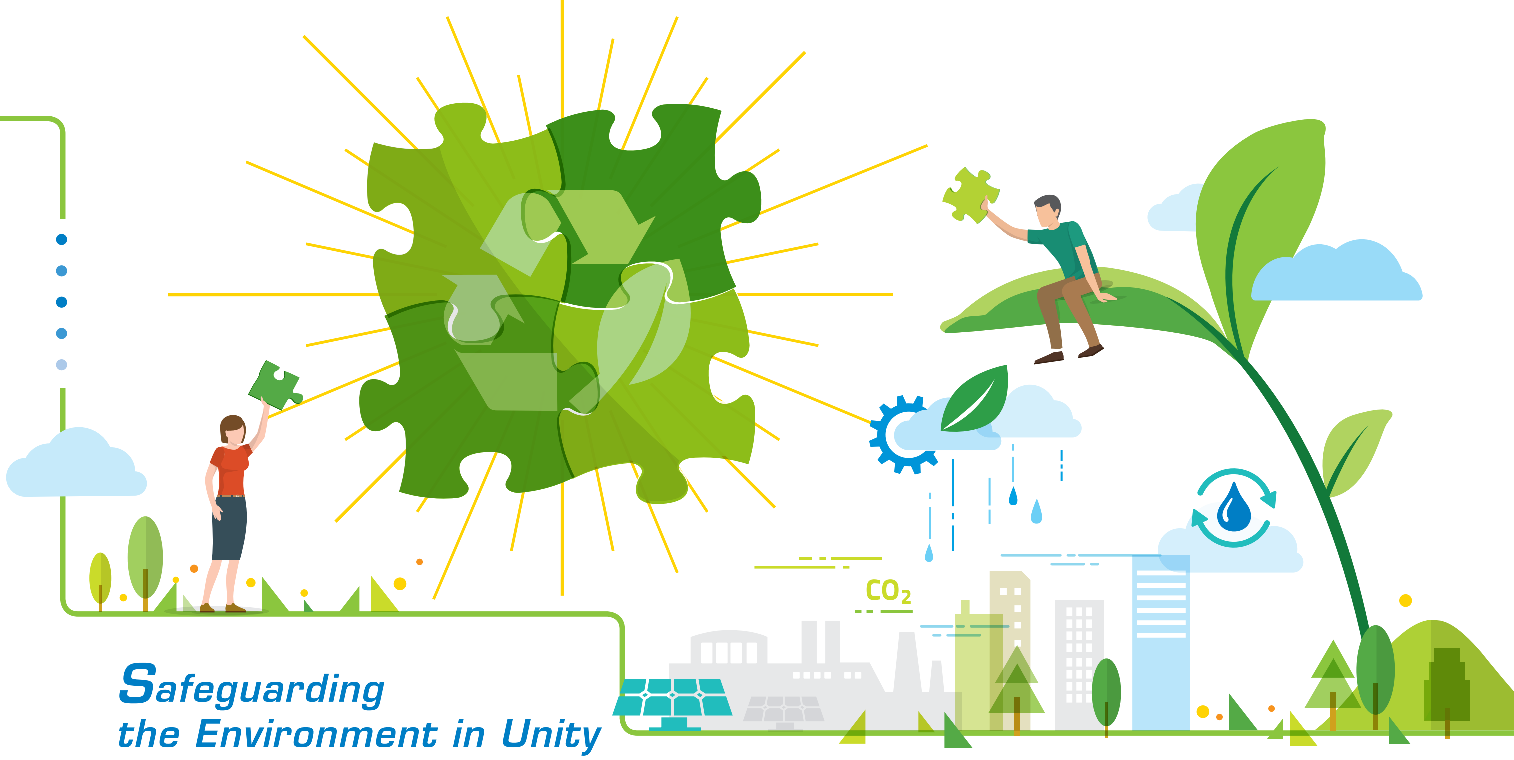
During the Reporting Period, the Group received 4 major complaints, which resulted in the return of 128 pieces of goods. However, none of the return is related to health and safety or environmental issues and we received no non-compliance complaints relating hazardous substance-free ("HSF") products.

Zero Complaint Related to HSF Product in 2017

Protecting Consumer Privacy

Helping our customers create corporate value is one of our Group's core missions. Operating in an industry where data privacy is decisive to corporate success, our Group strives to protect consumer data and other sensitive information by adopting the following operating measures:

- Employ the information steward system SAP in 2017 to securely store and organize consumer information
- Use numeric codes to replace and represent clients' name during production
- Require employees to enter into a confidentiality agreement for those involve commercial secrets and all other confidential business information
- Respect clients' confidentiality strictly at all times. In the event of clients visits or government inspections, no access to the production area is granted and no divulgement of consumer information is allowed



Safeguarding the Environment in Unity

O-Net is dependent upon the provision of natural resources. Therefore, the Group regards environmental protection and efficient use of resources as a priority for successful corporate development. Every year, the Group sets out targets and KPIs on environmental aspects to improve its environmental and sustainability performance. This year, we added 2 environmental KPIs[1] and we have achieved both in 2017.

- Zero Industrial Sewage Emission
- 100% Transfer and Treatment of Hazardous Waste

To address and identify important environmental factors of our operations and service offerings that may lead to significant environmental impacts, the Group has formulated a procedure to distinguish and evaluate its environmental risks every year. The factors identified in 2017 and the respective corrective and mitigative measures are listed below:

Environmental Factors	Environmental Impacts	Mitigative Measures
Consumption of Energy Resources	Exhaustion of Energy Resources	• Set up targets and KPIs to control the use of resources
Emission of Hazardous Waste	Water and Land Pollution	• Unify and centralise the treatment of hazardous waste • Formulate an emergency contingency plan for leakage of hazardous waste
Emission of Industrial Sewage	Water Pollution	• Continue to treat and process industrial sewage • Formulate an emergency contingency plan for leakage of industrial sewage
Industrial Air Pollution	Air Pollution	• Annual monitoring
Leakage of Chemicals	Water and Land Pollution	• Formulate an emergency contingency plan for leakage of chemicals and perform leakage drills regularly • Install anti-leakage and fire safety equipment • Inspect chemical storage and usage regularly
Fire or Explosive Accident	Water, Air, Land and Noise Pollution	• Formulate fire safety policy and perform regular fire safety checks

[1] The two environmental KPIs performances are recorded from April 2017 to December 2017.

Exhaust Gas Emissions

Our operations involve three main sources of exhaust gas emissions: industrial waste gas emissions, oily fume and cooking odour emissions, and mobile vehicle exhaust gas emissions. The Group engages a professional environmental monitoring entity to inspect the air pollution level every year to facilitate the management of industrial air pollution, which is considered an important environmental factor of the Group.

Industrial waste gas emissions from our production involve tin and its compound and toluene, among others, yet the amount of emissions has not been substantial. The monitoring report in 2017 shows that the pollutants' concentration from our industrial waste gas sample adheres to the relevant provincial standards (廣東省地方標準大氣污染物排放限值). 8 out of 10 pollutants' concentration were even lower than the lowest detectable level. In the future, we will remain vigilant in controlling our industrial air pollution.

As for the oily fume and cooking odour emissions from the kitchen of the staff canteen, the monitoring result is also satisfactory. No non-compliance to the national standard of oily fume emissions (國家標準飲食業油煙排放標準) is recorded.

On the other hand, the Group currently has no monitoring systems for mobile vehicle exhaust gas emissions in place. However, we ensure that the vehicles owned and operated by the Group are regularly checked and properly maintained to guarantee good fuel efficiency. Apart from the Group-owned vehicles, the Group also endeavours to minimize the exhaust gas emissions from the staff shuttle service. Currently, the Group is provisioning the service of staff shuttle to an external bus service company, the contract of which clearly confines the bus service company to use only electric buses for the shuttle service. As the Group operates a total of 9 shuttle routes, including 8 weekday routes and 1 weekend route, each providing two times of service a day, the total avoided emissions could be sizable.

Carbon Emissions

Understanding one's carbon emissions profile is the prerequisite of effective carbon management. In view of this, the Group has been engaging an external independent environmental consultancy to calculate its carbon emissions annually since 2011. The scope used in the Reporting Period for the calculation includes direct emissions and indirect emissions from energy consumption, which amounts to approximately 40,000 tonnes of carbon dioxide equivalent.

Our carbon emissions this year experienced a substantial growth of about 60% when compared to last year's emissions, which is possibly due to the expansion of business. We also acknowledge that the intensity of carbon emissions by revenue has increased by 25%. Therefore, the Group will continue to minimise its carbon emissions by adopting more energy efficient policies, while also begin to mitigate its emissions by engaging in carbon trading.

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Carbon Trading

The Group understands its inherent responsibility to minimize carbon emissions as a corporation and as a global citizen. Therefore, it has been proactively seeking for a more stable and reliable mean to manage and curtail its carbon emissions. As carbon trading is becoming more mature and established, the Group is pleased to announce that it has started participating in the Shenzhen carbon trading market, from which the Group will trade its first carbon offsets in 2018.

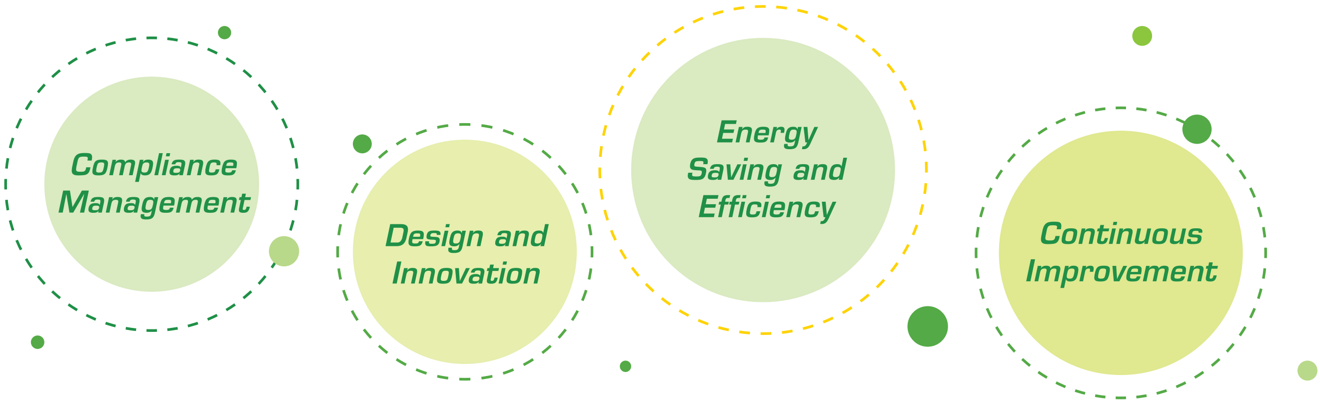
Carbon trading is a market-based solution for mitigating climate change. The carbon trading market in Shenzhen is a pilot system for emission trading launched by the Chinese government in 2013. It currently has a total of 824 entities members and covers 40% of the city's emissions. The trading system has an emission cap of 31.45 MtCO_2e, under which the members could trade their carbon allowance units. Participating in the market, we are committed to providing greater environmental certainty to the society. We are optimistic about this initiative in our carbon management and we look forward to taking bolder steps towards sustainable development in the future.

Energy Management

The indirect emissions from energy consumption accounts for more than 99% of the Group's total emissions in the Reporting Period. In view of this, the Group has established an energy management system to comprehensively manage its energy usage, in order to devise corresponding measures, to promote efficient energy use, as well as to facilitate effective continual improvement in energy management. With the resolute effort of the Group towards sustainable energy management, the Group has been awarded ISO 50001 Energy Management System Certification in December 2017.

Our energy management policy is developed based on the four areas listed below. As a baseline, we ensure that our operations comply with all relevant laws and regulations. In addition, we strive to incorporate the use of renewable energy and energy efficient technologies into our innovations. We are also devoted to energy saving, and endeavour to promote energy conservation within the Group. Last but not least, we aspire to continuously advance and improve our energy performance as a responsible corporate citizen.


UNIVERSAL CERTIFICATION CENTRE CO., LTD.
ENERGY MANAGEMENT SYSTEM CERTIFICATE
O-NET COMMUNICATIONS (SHENZHEN) LIMITED
GB/T23331-2012/ISO 50001:2011《ENERGY MANAGEMENT SYSTEMS-REQUIREMENTS》AND RB/T 101-2013《ENERGY MANAGEMENT SYSTEMS – REQUIREMENTS FOR CERTIFICATION ON ELECTRONICS AND INFORMATION ENTERPRISES》
"THE DESIGN AND MANUFACTURE OF FIBER-OPTIC COMMUNICATION PRODUCTS INCLUDING PASSIVE COMPONENTS AND ACTIVE COMPONENTS; THE PROVISION OF COATING PROCESSING FOR CONSUMER ELECTRONIC PRODUCTS AND RELATED ENERGY MANAGE ACTION"



Energy Usage	2017
Electricity Usage[3] (MWh)	42,402.45
Petroleum Usage (tonnes)	71.03
Diesel Oil Usage (tonnes)	17.18
Natural Gas Usage[4] (m^3)	4,777.00
Total Energy Usage[5] (MJ)	156,291,736.60
Energy Intensity by Revenue (MJ/HKD'000)	76.80

Based on the above energy management policy, the Group has formulated and implemented a set of guidelines on internal energy management in 2017. Some important measures are shown below:

- Perform energy audit annually
- Set up energy saving KPIs and targets for different operating procedures every year
- Promote energy saving awareness and enhance energy-related training
- Consider utilising renewable energy when renovating old facilities or building new facilities
- Evaluate energy intensiveness of a product at the design and development stage, and adopt new production technologies to improve energy efficiency when possible
- Include energy performance as one of the selection assessment criteria for developing suppliers
- Procure products that are energy-efficient, water-efficient and environmentally-friendly

Energy Efficiency Initiatives

Enhancing energy efficiency is one of the most direct and cost-effective ways to reduce the Group's greenhouse gas ("GHG") emission. The Group is committed to improving its energy performance by adopting cleaner energy sources, and using electrical appliances with higher energy efficiency. Green offices, green operations and green lifestyles are also encouraged within workplaces and staff dormitories, while new hires are required to participate in energy conservation training before the commencement of work.

LED Lighting System

Due to the fact that LED light consumes approximately only 60% of the electricity of ordinary light, the Group has imposed measures to improve the efficiency of its lighting system. 500 LED tubes has been installed in the newly renovated production areas in 2017. We also replaced all impaired old tubes and lamps with LED tubes. It is estimated that the installed LED tubes saves around 940 kWh of electricity per month.

3 Usage of electricity by the outsourced electric buses is excluded in the calculation of the total electricity usage.
4 Usage of natural gas at the outsourced canteen is excluded in the calculation of the total natural gas usage.
5 Usage of natural gas at the outsourced canteen and usage of electricity by the outsourced electric buses are excluded in the calculation of the total energy usage.

Solar Heating System

During the Reporting Period, the Group continued to utilise its 700m² solar panels to supply hot water for the staff dormitory. The panels are connected to hot water storage tanks, which have a total storage capacity of 80m³ at a time. When the solar panels fail to supply adequate amount of hot water, there is an energy-efficient heat pump readily in place to produce hot water.

Produces Approximately ***23,000*** *tonnes of Hot Water Annually*

Saves Around ***8,750*** *kWh Every Month*

Centralised Air-Conditioning System

The central air-conditioning system consists of 10 circulating pumps, with each of them equipped with a variable frequency drive. The inverter allows the speed of the compressors to vary to deliver precise cooling and heating while consuming less energy. A heat-recovery system is also in place to fully utilise heat, the by-product of air conditioning. This process reduces water heating cost as well as minimises the use of purchased energy.

Inverter Air Conditioning

Heat-Recovery System: Saves Around ***6,700*** *kWh Every Month*

Waste Management

The Group generates four main types of waste: recyclables, non-recyclables, hazardous waste and kitchen waste. To ensure all waste are under systematic management, the Group has devised a waste handling policy to define the responsibilities of different departments with regards to waste management and the procedures to handle waste. Trainings are also provided to concerned personnel who are responsible for managing hazardous waste.

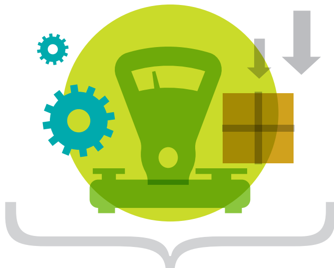
In addition, all types of waste are properly labelled and stored separately before disposal. Non-hazardous waste, including recyclables, non-recyclables and kitchen waste, is collected and processed by type, by an external cleaning service provider appointed by the Group. Currently, the Group does not have any record or data on its non-hazardous waste disposal as the management of such waste is outsourced. However, we shall engage the service provider to start monitoring our waste generation in the future.

Hazardous Waste Disposal

Within our operations, hazardous waste is mainly produced from cleaning process during production and sewage treatment process. The Group has enlisted a professional environmental service provider to collect and process its hazardous waste, including organic solvent, sewage sludge and light tubes, for responsible disposal. Before transferring the hazardous waste to the service provider, concerned departments shall make sure all hazardous waste is securely stored with correct warning labels attached for smooth and safe transitional handling. During the Reporting Period, we have transferred 100% of our hazardous waste, approximately 7 tonnes in total, to the designated service provider for further processing and disposal.

Resources Recycling

One of our waste management pledges is to "separate and recycle". To facilitate resource recycling, the Group has installed recycling bins around the factory premises. The Group also endeavours to reuse resources from its operations, for instance, certain packaging materials may be reused internally.



Packaging Material

Packaging plays an important role in protecting our precise-calibrated products from being damaged during transportation. At O-Net, most of the packaging is arranged based on our customers' preferences, from which they specify the desired materials and ways of packaging.

In the Reporting Period, the Group has purchased approximately 1.6 million pieces of blister packs (吸塑), 2.6 million pieces of foam plastic (泡棉), and 260 thousand pieces of carton box. In the future, the Group shall consider recording the weight of the packaging material used to enhance the monitoring of resource consumption.

Use Water Resource to the Fullest

Water is a valuable resource that the Group protects. Although the use of water is not significant to the Group's operations, a list of internal policies and measures have been formulated to ensure the efficient use of water within the Group.

Water Usage

Major water usage of the Group comes from cleaning process in production and domestic use. To minimise the consumption of water resources, the Group encourages and promotes water conservation in workplaces as well as in staff dormitories by putting up conservation signs and bulletins. Water supply facilities and pipes are checked every day to ensure proper functioning and no leakages. In the Reporting Period, the Group has consumed approximately 360,000 m^3 of water.

Zero Industrial Sewage Emission

To minimise the amount of discharged sewage from our operations, we have built an on-site sewage treatment station to carry out purification procedure to the sewage collected through our comprehensive pipe system.

The treatment station has an annual sewage treatment capacity of approximately 12,300 m^3. To ensure the effectiveness of the treatment procedures, the Group has been engaging an independent environmental consultancy to conduct inspections on the treated wastewater quality quarterly. Results from November 2017 inspection showed that the concentration of the pollutants tested were far below the regional permitted level (廣東省地方標準水污染物排放限值). In addition, due to the treatment procedure, the Group also reached its KPI of "zero industrial sewage emission" in 2017.

Recycling of Water Resources

The Group believes that with proper management and treatment, "wastewater" can be transformed to become useful resources. Currently, the Group has two major water recycling systems in place, the rainwater collection system and the sewage treatment and reusing system. Recycled water is then used for greening and housekeeping at the facility.

Life Cycle Management

We are taking progressive steps to transform our business and respond to this environmentally savvy world. In September 2017, the Group officially included the consideration of product life cycle management to the environmental factors control procedure. At the present stage, we are still beginning our transformation process for product life cycle management. Looking forward, the Group will proactively revise its operating policies, and promote and build its capacity in related topics and professions.

Establishing the O-Net Family — Our People and Community

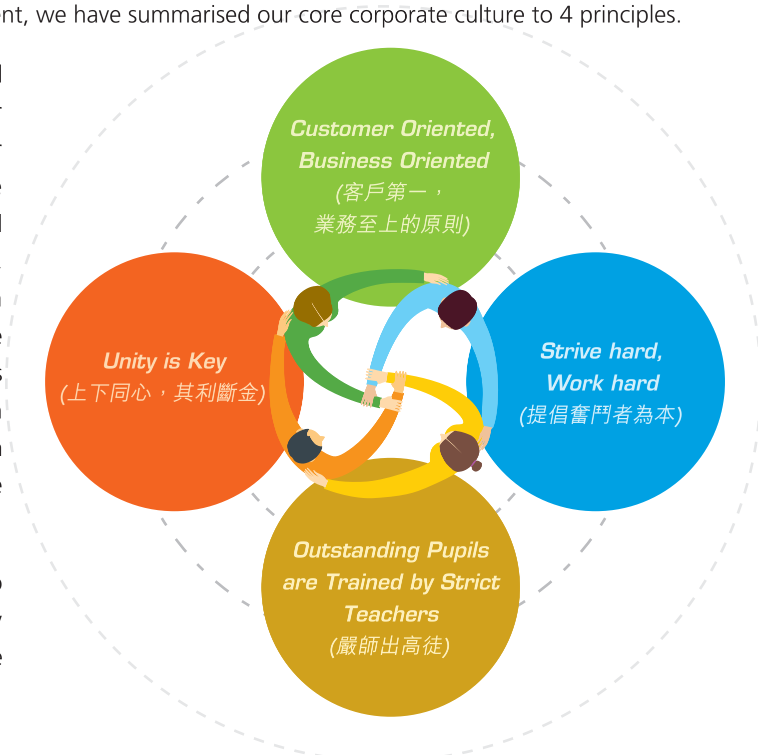
At O-Net, we have longstanding commitment to value and respect our people. As a top technology company, our people's devotion and wellbeing is immensely important in securing our long-term success. Some of our people-oriented policies are explained and introduced in the following sections.

Building Our Corporate Culture

At O-Net, establishing corporate culture and corporate image is essential to our enduring business success. We have set the year of 2017 as our "Corporate Culture Establishment Year", where we began working closely with our employees to collectively build up our company culture and image. To realize our corporate culture in a systematic and effective manner, a Corporate Culture Development Team was formed. Various themed activities were held to expound our key company values, and to stimulate our employees' momentum to drive towards continual corporate development. After rounds of enthusiastic discussions among our senior management, we have summarised our core corporate culture to 4 principles.

With these 4 principles in hand, we have designed and organized a series of activities that engage our staff from all levels and the general public, in order to construct a unified public corporate image. These events aim at developing O-Net as a welcoming and caring workplace where staff can regard as "family", yet also cultivating it as a fair and competitive platform for staff to unleash their talents. The essence of these core values can also be traced in our operating policies and practices. Development of corporate culture can be divided into four main areas, namely, learning from the past — case study, policy formulation, employee communication and public image establishment.

Looking forward, the Group will continue to strengthen its corporate culture and image by organising more events and activities relating to the four main areas.

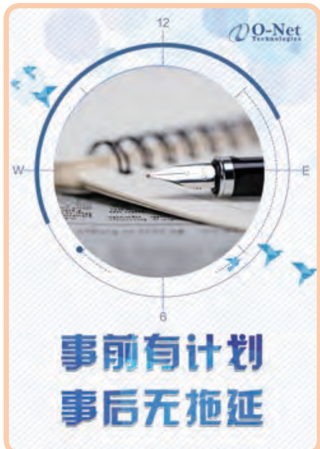


Highlighted Corporate Culture Events in 2017

The Group registered a public account on WeChat for effective communication with stakeholders and corporate image development.

The Group revamped its internal newsletter "築夢昂納" design and contents.

O-Net organized its first match-making activity within the Group in May for its employees.



Corporate culture slogan creation

Every department is invited to create slogans to boost employees esteem. The slogans are then printed as posters to put up in the facility.

The Group held the second O-Net Corporate Culture Conference in June.

The Group distributed apples packed in festive boxes to employees at Christmas.

Employee Development and Training

The Group puts great emphasis on the continuous growth of its people and invests heavily in employees' training programmes. We believe the only way to lead the Group to prosperity, is to advance the very people who steer our corporate growth, our employees. Therefore, the Group endeavours to provide its employees with sufficient resources and opportunities to build up their individual capacity. With tireless effort from the Human Resource team, employees from different departments and management tiers are equipped with professional skills and industry knowledge through a series of well-organized and systematic training. In 2017, all employees fulfilled their required Group-level trainings and departmental trainings.

Orientation Training

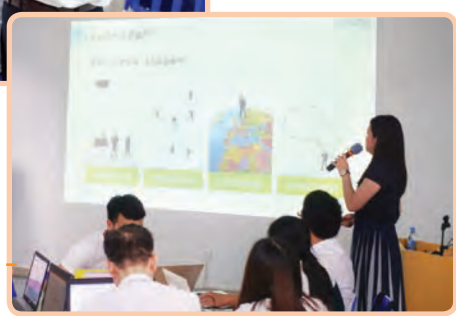
All new employees are welcomed with an orientation training, the scope of which includes a wide range of important topics and practical skills, including corporate culture, information confidentiality, occupational safety and other practical knowledge related to production. In 2017, new employees who attended orientation training reached 100%.

"Collective Wisdom" Lecture Series (昂納智匯大講堂)

The Group strives to diversify its training scope to provide more choices for its employees to choose based on their interests and professional needs. Since April 2017, the Group has been organising small lectures every month, each featuring one practical skill that is useful in workplace. Training conductors are all internal staff members who are skilful and professional in related topics. Not only have the trainings improved our people's calibre, it has also served as a channel to show that the Group admires and appreciates its employees' talents.

Excel — Practical Skills Workshop

Effective Communication Workshop



PowerPoint Design Workshop

2017 Graduate Training Programme

The graduate training programme is the biggest training event of the year. In July 2017, 58 college graduates participated in a 16-day intensive induction training camp, which was designed based on the training principle of Attitude, Skills and Knowledge ("ASK"). During the training camp, a total of 50 training conductors from multiple departments held hours of lectures and arranged interactive learning activities to familiarise the graduates with company culture, company strategies, and other practical knowledge related to production. The camp also facilitated team-building and increased cohesiveness among the graduates, who completed the training with stronger self-confidence and greater determination to work as part of the O-Net family.

Commencement ceremony of the 2017 Graduate Training Programme.

Training at the production area.

Talent Show — The graduates performed in talk shows, video showcase and talent competition.

Employer of Choice

Attracting talents and retaining high-calibre professional employees are vital for the Group's development, given its advanced technological nature. Therefore, the Group has established a competitive remuneration package for its people, which includes basic remuneration, medical and social security insurance, staff dormitories, adequate training and development, performance reward and bonus, among others.

The Group also ingrains respect for employees' basic human rights into its corporate culture. At O-Net, we do not tolerate any form of discrimination or infringement of human rights. As an employer, we also protect our staff's freedom of association and right to collective bargaining. A grievance system is set up for employees to report any non-compliance to the management representative, who will arrange investigation and implement timely remedial actions. The Group also prohibits employment of child or forced labour by implementing strict human resources policy to ensure all employees are hired under legal circumstances.

O-Net Childcare Service

O-Net is also a family-friendly employer. After careful consideration and evaluation of our employee's suggestions, we established O-Net's first summer childcare service during the summer holiday of 2017 to assist employees with family commitments. Employees who signed the safety agreements can bring their children along with them, where the children are cared for in a safe environment and guided by professional nursery teachers to learn and play in an interactive approach. This initiative is beneficial to our employees, as well as our operations, as it allows our employees to focus on their work without having to worry about the well-being of their children.

Caring for Employee's Safety, Health and Well-Being

Safeguarding employee's well-being is a top priority on our sustainability agenda. Our safety and health management is underpinned by the principles of comprehensive prevention of health hazards, and a balance between work and life. To implement our people-oriented vision, the Group has set up the Environmental and Occupational Health and Safety Committee (the "Committee"), which is responsible for the occupational safety management of the Group. It ensures the effectiveness of the safety management system, maintains and inspects the safety facilities in the production area, as well as formulates relevant safety training for the employees. The Group is certified in the OHSAS 18001 Occupational Health and Safety Management System.

Prevention is always preferred over remedies. In November 2017, the Group engaged a professional consultancy to evaluate the biochemical and physical occupation risks of its workplace, and to assess if there was any breach of local and national health and safety regulations and standards. Test results complied with all regulations relating to biochemical health risks. However, one of the physical risk test points exceeded the occupational noise limit as set out by the Chinese government. This might be due to the ageing of machineries, which resulted in an increase in noise level while operating. To better protect its employees from noise pollution, the Group will regularly maintain its production and to ensure its employees are properly protected by earmuffs or ear plugs when carrying out job duties in the production area.

In addition, safety training is designed for the entire workforce of the Group – including orientation health and safety training for new hires, environmental and safety management training for senior management, and hazardous waste handling training for responsible personnel. When necessary, written examinations and practical assessments will be carried out to ensure the employees have a thorough understanding on the concerned topics. For employees who are involved in the handling of hazardous material or waste from our production, an annual hazardous waste leakage drill is organized to reinforce responsible department's awareness and calibre to react to such incident promptly and properly.

To systematically manage the health and safety of employees, a handful of policies have been issued concerning with the following:

- Crises and emergencies
- Management of chemicals and pressurized containers
- Usage of protective gear within production area
- Fire safety
- Hazardous waste leakage
- Management of safety and personal protective equipment

Regular Occupational Health Check

For employees who are exposed to health risks, the Group shall maintain relevant high-risk work area at a certain standard to minimise negative health impacts to our employees. The Group also ensures that its employees undergo regular health checks, which cover primary check-ups, and x-ray examinations.

Promote Mental Health

According to the World Health Organisation, health refers to a state of complete physical, mental and social well-being. The Group, therefore, is dedicated to including mental health as one of the health management priorities. Enlightened by the fact that an increasing number of people are suffering from mental illness, the Group has formed a mental health awareness team to cater to employees' mental and emotional needs in 2017.

Mental support is provided through counselling, which is carried out by experienced staff from the Human Resource department. Apart from psychological counselling, the Group also promotes a joyful working environment to alleviate stress at the workplace, such as organizing festive activities and distributing small gifts. For details of related events, please refer to the "Our Community" section.

During the Reporting Period, one case of work injury incident was reported.

Making our Workplace a Better Place

Listening to our employees' opinions is key to operational improvements. At O-Net, we value the feedback and thoughts of our employees on all matters relating to the Group. We strive to improve ourselves by considering and collaborating with our people.

Our employees can express their thoughts and opinions through multiple channels, for example, emails, message boxes or regular meetings. To highlight the Group's care for its new recruits, all new hires are invited to monthly employee meeting (新員工座談會) starting from March 2017. These monthly meetings allow them to reflect on the difficulties they encounter at work, the support they require from the Group, and the work-related doubts they hope the Group to clarify, in a casual and open manner. The meeting also serves as a perfect opportunity for the newly employed to build up their social circle within the Group.

New hires are not the only ones we care about, we also wish to hear and learn from the employees who decide to leave the Group. We conduct dismissal interviews with employees leaving the Group to understand the reasons behind. Useful insights we gain from the interviews will certainly benefit our management and steer us towards sustainability.

Our Community

We endeavour to provide assistance to the very groups who support us. Demonstrating through actions, O-Net continues its dedication to the communities within its facility premise and its neighbourhood.

Within Factory

The Group regards the O-Net factory premise itself as a small community. Aiming to serve for the well-being of the O-Net community, the Group has organized regular activities of diverse nature to engage its employees in 2017.

Jan

The Group collaborated with the Pingshan Police Station (坪山公安分局治安大隊) for an anti-fraud training. The training aimed to increase our employees' awareness towards individual fraud in daily life, as well as business fraud in workplace.

Jan

Chinese New Year is an important festival in Chinese Culture. In 2017, over 800 employees joined the O-Net Chinese New Year gathering, which was themed "Exceeding Limits" (乘勢而上，超越無限). We spent a wonderful night filled with joy and happiness, as the party was spiced up with a series of entertainment performed by our cheerful employees and a lucky draw!

Mar

On Women's Day, we demonstrated our gratitude to our female employees by holding a flower art workshop. All female employees were collectively invited to participate at the workshop, where they learnt how to decorate and arrange flowers in an artistic manner.

May

Apart from Group-level activities, the Group also encourages departments to organize recreational activities internally to strengthen the bonding within their teams. In May, the Quality and System Department held an outdoor hiking event, at which they had a fun time playing Tug-of-War as well as three-legged race. Research and Development Department also organized a trip to Shunde, where they enjoyed a weekend with their friends, family and the team.

Jun

Aiming to bring employees closer together as a family and to strengthen their sense of belonging with the Group, we organized O-Net's first family day in June. Employees brought their children and family members to the factory, where booths were set up for mini-games and refreshments were served. The family day was an absolute success and we look forward to keeping this tradition in the coming years

Nov

In November, the Group held its first O-Net Basketball Cup, at which 6 departments formed their own team to compete for championship. After 10 exciting matches, Team Shenhua (神畫隊) went home as the champion.

Ongoing

In addition, the Group has formed 5 sports teams to promote regular exercise and improve employees' physical health, including badminton team, basketball team, football team, table tennis team and yoga team. The teams meet weekly for practices and trainings. Only founded in 2017, the yoga team is the newest, yet has the most members among all sports teams. Every Thursday, the yoga team transforms the multi-purpose activity room to a tranquil yoga classroom, where members stretch their bodies and free their minds.

Within the Neighbourhood

Apart from investing within our O-net community, the Group also strives to establish healthy connections within the surrounding neighbourhood through participating in various community events.

Friendly Basketball Matches

Our basketball team often organizes inter-corporation basketball games with other neighbouring factories. These friendly matches help us develop a harmonious relationship with the surrounding community.

Local Communities

The Group also actively participates in events held by local communities. In October, the Group participated in a sports day held by the Pingshan Longtian Street Zhukeng Labour Union, which encouraged regular exercises among employees and strengthened connections among factories within the neighbourhood. In November, the Group joined a literature-related recitation competition, which was held by the local Pingshan library (坪山圖書館). This event served as an enrichment to our staff's cultural life while encouraging continuous learning at the same time.

Apart from social leisure events, the Group also took part in a conference held by the Pingshan Longtian Street Labour Union (坪山龍田街道總工會), a platform where the Group shared and exchanged business insights with other corporations.

Role Model as an Eco-Industrial Park

Being recognized as the National Demonstration and Pilot Eco-Industrial Park (國家循環化改造示範試點園區), O-Net Pingshan factory complex is a role model in terms of environmental investment and management. We are willing to share our sustainability management strategies with our peers in the neighbourhood, where we strive together and learn from each other for a better, and more sustainable future.

ESG Performance Table

Key Performance Indicators	Unit	2017
Environmental		
GHG Emissions[1]	tCO_2e-	40,506.92
GHG Emission Intensity by FTE[2]	tCO_2e-/Person	8.82
GHG Emission Intensity by Revenue	tCO_2e-/HKD'000	0.020
Electricity Usage[3]	MWh	42,402.45
Petroleum Usage	Tonnes	71.03
Diesel Oil Usage	Tonnes	17.18
Natural Gas Usage[4]	m^3	4,777.00
Total Energy Usage[5]	MJ	156,291,736.60
Energy Intensity by Revenue	MJ/HKD'000	76.80
Water Consumption	m^3	360,344.00
Water Consumption Intensity by FTE	m^3/Person	78.44
Water Consumption Intensity by GFA[6,7]	m^3/m^2	5.53
Hazardous Waste	kg	70,742.00
Packaging Material — Blister Packs	Pieces '000	1,600.00
Packaging Material — Foam Plastic	Pieces '000	2,600.00
Packaging Material — Carton Boxes	Pieces '000	260.00

1. Usage of natural gas at the outsourced canteen, and the usage of electricity by the outsourced electric buses are excluded in the calculation of the total GHG emissions.
2. FTE stands for full-time employee.
3. Usage of electricity by the outsourced electric buses is excluded in the calculation of the total electricity usage.
4. Usage of natural gas at the outsourced canteen is excluded in the calculation of the total natural gas usage.
5. Usage of natural gas at the outsourced canteen and usage of electricity by the outsourced electric buses are excluded in the calculation of the total energy usage.
6. GFA stands for gross floor area.
7. This GFA excludes the area rented to Butterfly Technology (Shenzhen) Limited, and the outsourced canteen area.

Key Performance Indicators	Unit	2017
Social		
Total Workforce	Person	4,473
Workforce by Gender		
Male	Person	2,734 (61.1%)
Female	Person	1,739 (38.9%)
Workforce by Age Group		
20 – 29 Years Old	Person	3,286 (73.5%)
30 – 39 Years Old	Person	1,019 (22.7%)
40 – 49 Years Old	Person	137 (3.1%)
> 49 Years Old	Person	31 (0.7%)
Workforce by Department		
Production	Person	2,924 (65.4%)
Quality Assurance	Person	542 (12.1%)
Research and Development	Person	458 (10.2%)
Administrative staff [1]	Person	405 (9.1%)
Sales	Person	144 (3.2%)
Staff Turnover		
Staff Turnover	Person	3,613
Average Training Hours		
By Management Staff	Hours	30
By Worker Staff	Hours	36
Gender Ratio in Voluntary Trainings		
Management Staff	Male: Female	1.6: 1
Worker Staff	Male: Female	1.2: 1
Work Injury Cases		
Work Injury	Case	1

1 Administrative staff includes administrative staff, back office staff, and all other staff, except for those in the departments of production, quality assurance, research and development, and sales.

HKEx Reference

Aspects, General Disclosures and KPIs	Description	Relevant Chapter, reference page(s) or explanation
A. Environmental		
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	Safeguarding the Environment in Unity: Exhaust Gas Emissions, Carbon Emissions, Waste Management, Use Water Resource to the Fullest
KPI A1.1	The types of emissions and respective emissions data.	Safeguarding the Environment in Unity: Exhaust Gas Emissions, Carbon Emissions, Use Water Resource to the Fullest
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Safeguarding the Environment in Unity: Carbon Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Safeguarding the Environment in Unity: Waste Management
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Currently, the Group does not have any record or data on its non-hazardous waste disposal as the management of such waste is outsourced. The Group shall engage the service provider to start monitoring our waste generation in the future

Aspects, General Disclosures and KPIs	Description	Relevant Chapter, reference page(s) or explanation
A. Environmental *(Continued)*		
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Safeguarding the Environment in Unity: Exhaust Gas Emissions, Carbon Emissions, Waste Management, Use Water Resource to the Fullest
KPA A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Safeguarding the Environment in Unity: Waste Management
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Safeguarding the Environment in Unity: Waste Management
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Safeguarding the Environment in Unity: Energy Management
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Safeguarding the Environment in Unity: Use Water Resource to the Fullest
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Safeguarding the Environment in Unity: Energy Efficiency Initiatives
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Safeguarding the Environment in Unity: Use Water Resource to the Fullest
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Safeguarding the Environment in Unity: Packaging Material

Aspects, General Disclosures and KPIs	Description	Relevant Chapter, reference page(s) or explanation
A. Environmental *(Continued)*		
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Safeguarding the Environment in Unity: Exhaust Gas Emissions, Carbon Emissions, Waste Management, Use Water Resource to the Fullest; Building a Sustainable Supply Chain System: A Transparent, Green and Socially-Responsible Supply Chain
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Safeguarding the Environment in Unity: Exhaust Gas Emissions, Carbon Emissions, Waste Management, Use Water Resource to the Fullest; Building a Sustainable Supply Chain System: A Transparent, Green and Socially-Responsible Supply Chain

Aspects, General Disclosures and KPIs	Description	Relevant Chapter, reference page(s) or explanation
B. Social		
Employment and Labour Practices		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	Establishing the O-Net Family – Our People and Community: Building our Corporate Culture, Employer of Choice, Making Our Workplace a Better Place
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	ESG Performance Table
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	ESG Performance Table
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	Sustainability Governance; Establishing the O-Net Family – Our People and Community: Caring for Employee's Safety, Health and Well-being
KPI B2.1	Number and rate of work-related fatalities.	Establishing the O-Net Family – Our People and Community: Caring for Employee's Safety, Health and Well-being
KPI B2.2	Lost days due to work injury.	Not available
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Establishing the O-Net Family – Our People and Community: Caring for Employee's Safety, Health and Well-being

Aspects, General Disclosures and KPIs	Description	Relevant Chapter, reference page(s) or explanation
B. Social *(Continued)*		
Employment and Labour Practices *(Continued)*		
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Establishing the O-Net Family – Our People and Community: Employee Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	ESG Performance Table
KPI B3.2	The average training hours completed per employee by gender and employee category.	ESG Performance Table
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Establishing the O-Net Family – Our People and Community: Employer of Choice
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Establishing the O-Net Family – Our People and Community: Employer of Choice
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Establishing the O-Net Family – Our People and Community: Employer of Choice

Aspects, General Disclosures and KPIs	Description	Relevant Chapter, reference page(s) or explanation
B. Social *(Continued)*		
Operating Practices		
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Pursuing Excellence in Our Operations: Building a Sustainable Supply Chain System
KPI B5.1	Number of suppliers by geographical region.	Pursuing Excellence in Our Operations: Building a Sustainable Supply Chain System
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Pursuing Excellence in Our Operations: Building a Sustainable Supply Chain System
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Pursuing Excellence in Our Operations: Efficient and Quality Production, Building a Sustainable Supply Chain System, Customers Oriented
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Pursuing Excellence in Our Operations: Customers Oriented
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Pursuing Excellence in Our Operations: Customers Oriented
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Pursuing Excellence in Our Operations: Innovative Ideas and Actions

Aspects, General Disclosures and KPIs	Description	Relevant Chapter, reference page(s) or explanation
B. Social *(Continued)*		
Operating Practices *(Continued)*		
KPI B6.4	Description of quality assurance process and recall procedures.	Pursuing Excellence in Our Operations: Efficient and Quality Production
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Pursuing Excellence in Our Operations: Customers Oriented
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	Sustainability Governance: Anti-Corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Sustainability Governance: Anti-Corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Sustainability Governance: Anti-Corruption
Community		
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Establishing the O-Net Family – Our People and Community: Our Community
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Establishing the O-Net Family – Our People and Community: Our Community
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Establishing the O-Net Family – Our People and Community: Our Community

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 2017, 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 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 2017.

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 2017.

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, 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 details to enable the Board as a whole and each Director to discharge his duties. In addition, the Board has also delegated various responsibilities to the Board committees. Further details of these committees are set out in this report.

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

Composition

The Board currently consists of seven Directors including one 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. Chen Zhujiang
Mr. Huang Bin
Mr. Mo Shangyun

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 25 to 30 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 2017 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 2017.

The individual training record of each Director received for the year ended 31 December 2017 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 (resigned on 8 January 2018)	√
Mr. Mo Shangyun (appointed on 8 January 2018)	N/A
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, is also 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.

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 association of the Company (the "Articles").

Board Meetings

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

During the year ended 31 December 2017, the Board held 7 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	7/7
Mr. Tam Man Chi (resigned on 8 January 2018)	6/7
Mr. Chen Zhujiang	7/7
Mr. Huang Bin	6/7
Mr. Mo Shangyun (appointed on 8 January 2018)	N/A
Mr. Ong Chor Wei	6/7
Mr. Deng Xinping	6/7
Mr. Zhao Wei	6/7

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 2017, one general meeting of the Company was held, being the 2017 annual general meeting of the Company held on 2 June 2017 (the "2017 AGM").

Name of Director	Number of attendance
Mr. Na Qinglin	1/1
Mr. Tam Man Chi (resigned on 8 January 2018)	1/1
Mr. Chen Zhujiang	1/1
Mr. Huang Bin	1/1
Mr. Mo Shangyun (appointed on 8 January 2018)	N/A
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, the Chairman of the Board and chairman of the Nomination Committee, and chairman of each of the Audit Committee, the Remuneration Committee and the Corporate Governance Committee attended the 2017 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.

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 possesses 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 2017, 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 2017, 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 systems of risk management and 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 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. Na Qinglin
Mr. Tam Man Chi (ceased to be a member on 8 January 2018)
Mr. Huang Bin (appointed as a member on 8 January 2018)
Mr. Ong Chor Wei
Mr. Zhao Wei

During the year ended 31 December 2017, the Remuneration Committee held 1 meeting for reviewing the remuneration packages of the Directors and senior management.

Name of Director	Number of attendance
Mr. Deng Xinping	1/1
Mr. Na Qinglin	1/1
Mr. Tam Man Chi (ceased to be a member on 8 January 2018)	1/1
Mr. Huang Bin (appointed as a member on 8 January 2018)	N/A
Mr. Ong Chor Wei	1/1
Mr. Zhao Wei	1/1

Apart from the meeting held for the above purpose, the Remuneration Committee also by way of written resolution 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 38 to the consolidated financial statements.

Senior Management's Remuneration

Senior Management's remuneration payment of the Group for the year ended 31 December 2017 falls within the following bands:

	Number of individuals
Nil to HKD1,000,000	1
HKD1,000,001 to HKD2,000,000	6
HKD2,000,001 to HKD3,000,000	4
HKD3,000,001 to HKD4,000,000	–
HKD4,000,001 to HKD5,000,000	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 to make recommendations on any proposed changes to the Board to complement the Group's corporate strategy; to identify suitably qualified individuals to become members of the Board; to assess the independence of the independent non-executive Directors; to review the board diversity policy, and the measurable objectives that the Board has set thereof, and the progress on achieving the objectives; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the 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 necessity to set the measurable objectives for implementing the Board Diversity Policy from time to time.

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

The Nomination Committee currently comprises five members as follows:

Mr. Na Qinglin *(Chairman)*
Mr. Tam Man Chi (ceased to be a member on 8 January 2018)
Mr. Huang Bin (appointed as a member on 8 January 2018)
Mr. Deng Xinping
Mr. Ong Chor Wei
Mr. Zhao Wei

During the year ended 31 December 2017, the Nomination Committee held 1 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 (ceased to be a member on 8 January 2018)	1/1
Mr. Huang Bin (appointed as a member on 8 January 2018)	N/A
Mr. Deng Xinping	1/1
Mr. Ong Chor Wei	1/1
Mr. Zhao Wei	1/1

Corporate Governance Committee

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

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

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

The CG Committee currently comprises three members as follows:

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

During the year ended 31 December 2017, the CG Committee held 1 meeting for reviewing the Company's policies and practices on corporate governance; reviewing the training and continuous professional development of Directors and senior management; and reviewing the Company's compliance with the CG Code.

Name of Director/Member	Number of attendance
Mr. Na Qinglin	1/1
Mr. Kung Sze Wai	1/1
Mr. Zhou 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 RMB2,600,000 and CAD95,000 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 2017.

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.

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.

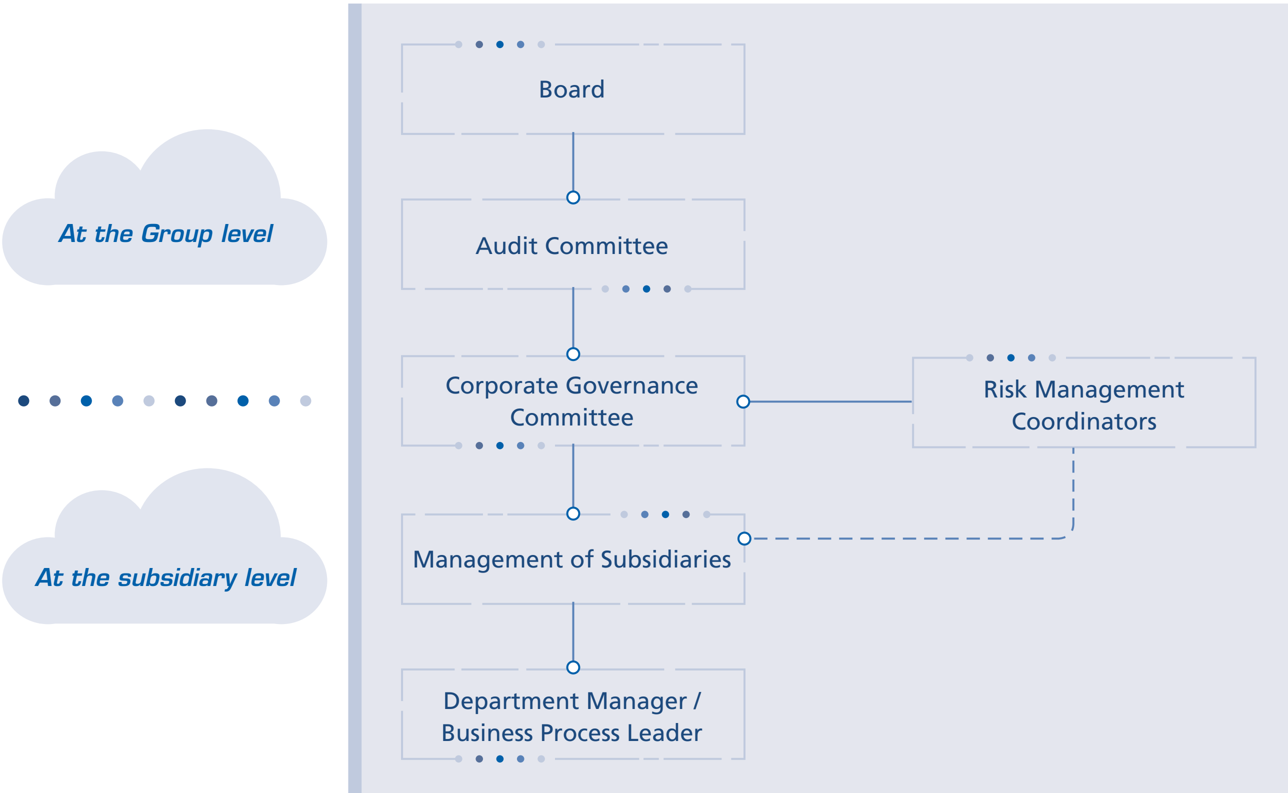
Risk Management and Internal Control

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 2017.

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.

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.

The Board conducted an annual review of the effectiveness of risk management and internal control systems for the year ended 31 December 2017, 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 2017.

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.

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 2017, 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 2017.

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 2017 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 101 to 175.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: 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".

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 Events 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, 1 June 2018 ("2018 AGM"), the register of members of the Company will be closed from Monday, 28 May 2018 to Friday, 1 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2018 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 Friday, 25 May 2018.

Share Capital

Details of movements in the Company's share capital for the year ended 31 December 2017 are set out in note 19 to the consolidated financial statements.

Shares Issued

During the year, the Company has allotted and issued new shares of HKD0.01 each upon exercise of share options under the Post-IPO Share Option Scheme, details of which are set out in this report.

In addition, the Company has also allotted and issued 50,000,000 new shares of HKD0.01 each on 5 May 2017 pursuant to the Placing and Subscription Agreement dated 21 April 2017.

Debentures Issued

No debenture has been issued by the Company during the year ended 31 December 2017.

Charitable Donations

During the year, the Group did not have charitable donation (2016: Nil).

Equity-Linked Agreements

Save for the Share Option Schemes and the Share Award Scheme of the Group as set out below, other equity-linked agreement entered into by the Group during the year or subsisting at the end of the year is set out in the sub-section headed "Group's Liability, Financial Resources and Capital Structure" under section headed "Management Discussion and Analysis".

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 2017, save for those purchased through trustee of the Share Award Scheme for the purpose of the Share Award Scheme.

Distributable Reserves

As at 31 December 2017, the Company's reserves available for distribution to the shareholders amounted to approximately HKD1,141 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 (resigned on 8 January 2018)
Mr. Chen Zhujiang
Mr. Huang Bin
Mr. Mo Shangyun (appointed on 8 January 2018)

Independent Non-executive Directors

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

In accordance with Article 83(3) of the Articles, Mr. Mo Shangyun, being a Director appointed after the 2017 AGM, shall retire from office as Director at the 2018 AGM and, being eligible, offers himself for re-election.

In accordance with Article 84(1) of the Articles, Mr. Chen Zhujiang, Mr. Huang Bin and Mr. Zhao Wei shall retire from office as Directors by rotation at the 2018 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 of the Company dated 19 April 2010.

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 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 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 Post-IPO Share Option Scheme is valid and effective for a period of 10 years commencing on 9 April 2010, being its date of adoption.

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

Name or category	Date of grant of share options	Exercisable period	Exercise price of share options (HKD)	Outstanding at 1 January 2017	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31 December 2017
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 8 April 2020 (Note 11)	2.400	500,000	–	–	–	–	500,000
Sub-total				1,500,000	–	–	–	–	1,500,000
Other Employees	10 October 2011	10 October 2012 to 8 April 2020 (Note 2)	1.870	3,800,000	–	(1,800,000)	–	–	2,000,000
	1 June 2012	2 June 2012 to 8 April 2020 (Note 1)	1.910	4,784,000	–	(1,849,000)	–	–	2,935,000
		2 June 2012 to 8 April 2020 (Note 3)		1,133,000	–	(102,000)	–	–	1,031,000
		2 June 2013 to 8 April 2020 (Note 4)		2,164,000	–	(466,000)	–	–	1,698,000
		2 June 2012 to 8 April 2020 (Note 5)		1,328,000	–	(425,000)	–	–	903,000
	22 April 2013	3 March 2014 to 8 April 2020 (Note 6)	1.680	2,350,000	–	–	–	(1,150,000)	1,200,000
	11 September 2013	11 September 2014 to 8 April 2020 (Note 7)	1.708	2,000,000	–	(1,200,000)	–	(800,000)	–
	25 September 2013	13 August 2014 to 8 April 2020 (Note 8)	1.652	350,000	–	(210,000)	–	–	140,000
	16 October 2013	14 October 2014 to 8 April 2020 (Note 9)	1.628	4,000,000	–	–	–	–	4,000,000
	8 November 2013	8 November 2014 to 8 April 2020 (Note 10)	1.484	4,063,000	–	(798,000)	–	–	3,265,000
	9 April 2014	28 March 2015 to 8 April 2020 (Note 11)	2.400	627,000	–	(231,000)	–	(24,000)	372,000
Total				28,099,000	–	(7,081,000)	–	(1,974,000)	19,044,000

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 3 March 2014, equally over a period of 5 years.

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

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

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

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

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

A total of 28,099,000 share options granted under the Post-IPO Share Option Scheme were remained outstanding on 1 January 2017. During the year ended 31 December 2017, 7,081,000 share options were exercised into 7,081,000 Shares while 1,974,000 share options lapsed. Save as aforesaid, no further options were granted, cancelled and lapsed during the year ended 31 December 2017.

As at the date of this report, the total number of shares available for issue under the Post-IPO Share Option Scheme is 19,044,000 shares, representing approximately 2.38% of the issued shares of the Company.

Restricted Share Award Scheme

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

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

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

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

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

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the sections headed "Share Option Schemes" above and in note 21 to the consolidated financial statements, at no time during the year ended 31 December 2017 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of share in, or debt securities, including debenture, of the Company or any other body corporate.

Directors' Service Contracts

Each of the executive Director and non-executive Directors (except for Mr. Mo Shangyun) has entered into a service agreement with the Company on 18 March 2014 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.

Mr. Mo Shangyu, a non-executive Director, has entered into a service agreement with the Company on 8 January 2018 for a term of three years commencing from 8 January 2018 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 service agreement.

Each of the independent non-executive Directors (except for Mr. Zhao Wei) has entered into a letter of appointment with the Company on 18 March 2014 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 on 18 March 2014 for a term of three years commencing from 18 March 2014 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 2018 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

Save as disclosed in the section headed "Connected Transactions", 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 2017.

Directors' Interests in Shares

As at 31 December 2017, 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 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 a controlled corporation	Long position	5,232,000 (Note 1)	0.66%
Mr. Tam Man Chi	Beneficial owner	Long position	9,337,480	1.17%
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 5,232,000 shares of the Company (the "Share(s)") held by Mandarin Assets Limited, a company wholly and beneficially owned by Mr. Na pursuant to the SFO.

2. These shares are derived from the interests 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".

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

As at 31 December 2017, 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	171,394,237	21.47%
Shenzhen Kaifa Technology Co., Ltd.	Interest of a controlled corporation	Long position	171,394,237 (Note 1)	21.47%
Great Wall Technology Company Limited	Interest of a controlled corporation	Long position	171,394,237 (Note 1)	21.47%
O-Net Holdings (BVI) Limited	Beneficial owner	Long position	228,573,383	28.63%
UBS Group AG	Security interest	Long position	23,793,000	2.98%
	Interest of controlled corporations	Long position	22,555,710 (Note 2)	2.82%
		Short position	22,453,700 (Note 2)	2.81%

Notes:

1. These 171,394,237 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 China Electronics Corporation; therefore, each of Shenzhen Kaifa Technology Co., Ltd. and China Electronics Corporation is deemed to be interested in these 171,394,237 Shares under the SFO.

2. 599,000 Shares and 599,000 short positions are held through UBS Securities LLC, 5,000 Shares are held through UBS Fund Management (Switzerland) AG and 21,951,710 Shares and 21,854,700 short positions are held through UBS AG, all being directly wholly-owned by UBS Group AG. Therefore, UBS Group AG is deemed to be interested in these 46,348,710 Shares and deemed to hold these 22,453,700 short positions pursuant to 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 2017.

Major Customers and Suppliers

During the year, the Group's sales to the five largest customers accounted for approximately 34.3% of the Group's total revenue and sales to the largest customer included therein accounted for approximately 11.3% of the Group's total sales.

During the year, the Group's purchase from the five largest suppliers accounted for approximately 33.1% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 10.9% of the Group's total purchases.

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.

Connected Transactions

Certain related party transactions entered into by the Group which also constituted connected transactions or continuing connected transaction under Chapter 14A of the Listing Rules, but are exempted from disclosure requirement under Chapter 14A of the Listing Rules, are disclosed in note 36 to the consolidated financial statements.

For the year ended 31 December 2017, the Group has the following connected transaction:

On 2 August 2017, O-Net Coating and Materials Technologies (HK) Limited ("O-Net Coating"), an indirect wholly-owned subsidiary of the Company, entered into an agreement (the "JV Agreement") with OB Technologies (Hong Kong) Limited (formerly known as Butterfly Technologies (Hong Kong) Limited) ("OB") in relation to the formation of 昂紅科技(深圳)有限公司 (OB Technologies (Shenzhen) Limited, formerly known as O-Net Butterfly Technologies (Shenzhen) Limited) (the "JV Company"). The total registered capital of the JV Company is HKD10,000,000 with each of O-Net Coating and OB investing HKD5,000,000. The JV Company is principally engaged in the development of 3D sensing modules for smartphone applications. The JV Company possesses a research and development team to, with the support from OB, design the whole module and algorithms, while the Group supports on light source and filter components.

Public Float

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

Audit Committee

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

Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 68 to 83 of this annual report.

Auditors

A resolution will be submitted to the 2018 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, 20 March 2018

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 101 to 175, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of profit or loss 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 2017, 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.

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.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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:

- Goodwill impairment

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 2017, there was goodwill with carrying amount of HKD29,924,000 arising from acquisitions in previous years. The Group performs goodwill impairment assessment in accordance with the accounting policy stated in Note 2.9. The recoverable amount of cash-generating unit is determined based on value-in-use calculation. This calculation involves significant judgement as the value-in-use of the related cash generating unit is determined based on assumptions used in the cash flow forecast, which may be affected by future results of the respective business. In particular, revenue growth rate and the applied discount rate are considered to be the key assumptions. Management concluded that, based on their assessment, no provision for 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 the 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 and evaluated the revenue growth rate used in the cash flow forecast taking into account market developments and historical data. – We evaluated the reasonableness of the discount rate applied in the calculation by comparing with the industry or market data to assess whether the discount rate applied were within the range of those adopted by other companies in the same industry. – We performed the sensitivity analysis of the key assumption adopted by management, including the discount rate and revenue growth rate to consider whether there were any indicator of management bias in the selection of key assumptions. Based on available evidence and our work performed, we found the key assumptions 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, director's 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, director's 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.

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, 20 March 2018

Consolidated Balance Sheet

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

	Note(s)	As at 31 December 2017 HKD'000	2016 HKD'000
ASSETS			
Non-current assets			
Land use right	6	**24,865**	23,826
Property, plant and equipment	7	**916,020**	701,835
Intangible assets	9	**82,648**	88,104
Investments accounted for using equity method	13	**2,497**	–
Deferred income tax assets	26	**2,050**	12,405
Available-for-sale financial assets	11	**12,272**	15,290
Derivative financial instruments		**97**	97
Other non-current receivables	15	**73,213**	26,139
Other non-current assets	8	**209,247**	131,744
		1,322,909	999,440
Current assets			
Inventories	14	**377,471**	269,779
Trade and other receivables	15	**975,048**	647,234
Other current assets	16	**1,552**	18,077
Financial assets at fair value through profit or loss	17	**18,816**	18,394
Pledged bank deposits	18	**84,851**	354,369
Term deposits with initial term of over three months	18	**2,492**	10,026
Cash and cash equivalents	18	**320,749**	169,312
		1,780,979	1,487,191
Total assets		**3,103,888**	2,486,631
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	19	**7,985**	7,414
Share premium	19	**1,100,025**	825,501
Treasury shares	19	**(74,927)**	(74,927)
Other reserves	20	**120,442**	(6,133)
Retained earnings	22	**877,986**	669,119
		2,031,511	1,420,974
Non-controlling interests		**1,584**	7,729
Total equity		**2,033,095**	1,428,703

Consolidated Balance Sheet

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

	Note(s)	As at 31 December 2017 HKD'000	2016 HKD'000
LIABILITIES			
Non-current liabilities			
Borrowings	25	–	29,082
Deferred tax liabilities	26	**2,498**	3,186
Deferred government grants	23	**15,107**	30,484
		17,605	62,752
Current liabilities			
Trade and other payables	24	**366,769**	290,111
Current income tax liabilities		**32,752**	20,767
Borrowings	25	**653,667**	684,298
		1,053,188	995,176
Total liabilities		**1,070,793**	1,057,928
Total equity and liabilities		**3,103,888**	2,486,631

The notes on pages 108 to 175 are an integral part of these consolidated financial statements.

The financial statements on pages 101 to 175 were approved by the Board of Directors on 20 March 2018 and were signed on its behalf.

Na Qinglin
Director

Chen Zhujiang
Director

Consolidated Statement of Profit or Loss

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

		Year ended 31 December	
		2017	2016
	Note(s)	**HKD'000**	HKD'000
Revenue	5	**2,035,085**	1,598,319
Cost of sales	28	**(1,308,612)**	(1,028,634)
Gross profit		**726,473**	569,685
Other gains — net	27	**30,420**	21,248
Selling and marketing costs	28	**(76,152)**	(63,408)
Research and development expenses	28	**(230,820)**	(187,812)
Administrative expenses	28	**(177,126)**	(177,501)
Operating profit		**272,795**	162,212
Finance income	30	**2,113**	9,160
Finance expenses	30	**(25,963)**	(15,556)
Finance expenses — net	30	**(23,850)**	(6,396)
Share of losses of investments accounted for using equity method	13	**(3)**	(1,450)
Profit before income tax		**248,942**	154,366
Income tax expenses	31	**(43,110)**	(25,561)
Profit for the year		**205,832**	128,805
Profit attributable to:			
Owners of the Company		**208,867**	130,603
Non-controlling interests		**(3,035)**	(1,798)
		205,832	128,805
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
Basic	33	**0.28**	0.18
Diluted	33	**0.27**	0.18

The notes on pages 108 to 175 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	
	2017	2016
	HKD'000	HKD'000
Profit for the year	**205,832**	128,805
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
Transfer of reserves to income statement upon disposal of a subsidiary	**(2)**	–
Currency translation differences	**104,164**	(73,887)
Other comprehensive income/(loss) for the year	**104,162**	(73,801)
Total comprehensive income for the year	**309,994**	55,004
Attributable to:		
— Owners of the Company	**312,721**	56,015
— Non-controlling interests	**(2,727)**	(1,011)
Total comprehensive income for the year	**309,994**	55,004

The notes on pages 108 to 175 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

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

	Attributable to equity holders of the Company							
	Share capital (Note 19) HKD'000	Share premium (Note 19) HKD'000	Treasury shares (Note 19) HKD'000	Other reserves (Note 20) HKD'000	Retained earnings (Note 22) 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 recognized 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 29)	–	–	–	423	–	423	–	423
Share award schemes — value of services (Note 29)	–	–	–	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

Consolidated Statement of Changes in Equity

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

	Attributable to equity holders of the Company							
	Share capital (Note 19) HKD'000	Share premium (Note 19) HKD'000	Treasury shares (Note 19) HKD'000	Other reserves (Note 20) HKD'000	Retained earnings (Note 22) HKD'000	Total HKD'000	Non-controlling interests HKD'000	Total equity HKD'000
Balance at 1 January 2017	7,414	825,501	(74,927)	(6,133)	669,119	1,420,974	7,729	1,428,703
Comprehensive income								
Profit for the year	–	–	–	–	208,867	208,867	(3,035)	205,832
Other comprehensive income								
Reversal of recognized other comprehensive loss in a subsidiary investment upon disposal	–	–	–	(1)	–	(1)	(1)	(2)
Currency translation differences	–	–	–	103,855	–	103,855	309	104,164
Total comprehensive income	–	–	–	103,854	208,867	312,721	(2,727)	309,994
Transactions with owners in their capacity as owners								
Share option scheme — value of services (Note 29)	–	–	–	(787)	–	(787)	–	(787)
Share award schemes — value of services (Note 29)	–	–	–	23,508	–	23,508	–	23,508
Disposal of subsidiaries	–	–	–	–	–	–	(3,418)	(3,418)
Issuance of new shares	500	261,665	–	–	–	262,165	–	262,165
Exercise of share options	71	12,859	–	–	–	12,930	–	12,930
Balance at 31 December 2017	7,985	1,100,025	(74,927)	120,442	877,986	2,031,511	1,584	2,033,095

The notes on pages 108 to 175 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	
		2017	2016
	Note(s)	**HKD'000**	HKD'000
Cash flows used in operating activities			
Cash generated from/(used in) operating activities	34	**17,173**	(50,734)
Interest paid		**(17,811)**	(3,727)
Tax refund		**2,864**	3,426
Income tax paid		**(22,573)**	(8,794)
Net cash used in operating activities		**(20,347)**	(59,829)
Cash flows from investing activities			
Received from investment on subsidiaries		**–**	4,022
Restricted bank deposits	18	**139,544**	(348,734)
Business combination	36	**–**	(7,273)
Proceeds from disposal of a subsidiary		**(2,776)**	–
Payment for setting up a joint venture		**(2,500)**	–
Purchases of property, plant and equipment and payments for construction-in-progress		**(246,475)**	(114,749)
Purchase of intangible assets		**(5,901)**	(1,824)
Proceeds from government grant related to property, plant and equipment	23	**2,871**	18,450
Capital expenditure for capitalised development costs		**(77)**	(14,599)
Interest received		**5,961**	2,451
Proceeds from disposal of fixed assets and intangible assets		**1,557**	838
Decrease of term deposits with initial term of over three months	18	**7,534**	25,782
Purchase of available-for-sale financial assets	11	**–**	(3,018)
Proceeds from disposal of available-for-sale financial assets	11	**3,019**	–
Prepayment for equity investment	8	**(71,925)**	(116,328)
Net cash used in investing activities		**(169,168)**	(554,982)
Cash flows from financing activities			
Proceed from borrowings		**893,391**	819,243
Borrowings repayments		**(977,859)**	(180,292)
Restricted bank deposits	18	**129,974**	–
Proceeds from issuance of new shares		**262,165**	–
Proceeds from exercise of share options		**12,930**	17,766
Net cash from financing activities		**320,601**	656,717
Net increase in cash and cash equivalents		**131,086**	41,906
Cash and cash equivalents at the beginning of the year		**169,312**	133,910
Exchange difference		**20,351**	(6,504)
Cash and cash equivalents at the end of the year		**320,749**	169,312

The notes on pages 108 to 175 are an integral part of these 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.

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 20 March 2018.

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 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.

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 Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealized Losses — Amendments to HKAS 12, and
- Disclosure initiative — amendments to HKAS 7.

The adoption of these amendments did not have any impact on the current period or any prior period. The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see note 34(b).

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 9 Financial Instruments

Nature of change

HKFRS 9 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.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The financial assets held by the Group include:

- equity instruments currently classified as available-for-sale (AFS) for which a fair value through other comprehensive income (FVOCI) election is available, and
- equity investments currently measured at fair value through profit or loss (FVPL) which will continue to be measured on the same basis under HKFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realized on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

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)*

HKFRS 9 Financial Instruments (Continued)

Impact (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 amortized 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. Based on the assessments undertaken to date, the Group does not expect significant increase or decrease in the loss allowance for the trade debtors.

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.

Date of adoption by the Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

HKFRS 15 Revenue from Contracts with Customers

Nature of change

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 and the related literature.

The new standard is based on the principle that revenue is recognized 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.

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)*

HKFRS 15 Revenue from Contracts with Customers (Continued)

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

Revenue from coating business may be recognized over time in accordance with the input method for measurement instead of a point of time under HKFRS 15, if the Group has an enforceable right to payment from the customers for the performance completed to date.

Accounting for products already sent to customer's hub — certain products in client's hub which are currently recognized as inventories may need to be recognized as revenue under HKFRS 15.

At this stage, the Group has commenced an assessment of the impact of other new and amended standards and interpretations to existing standards and does not expect a significant impact on its results of operations and financial position.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognized in retained earnings as of 1 January 2018 and that comparatives will not be restated.

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized 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 recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

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)*

HKFRS 16 Leases (Continued)

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HKD21,978,000. The Group estimates that approximately 13% of these relate to payments for short-term and low value leases which will be recognized on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognized on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by the Group

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. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

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.

2 Summary of Significant Accounting Policies *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

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.

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 Summary of Significant Accounting Policies *(Continued)*

2.2 Subsidiaries *(Continued)*

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.

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 Summary of Significant Accounting Policies *(Continued)*

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 of 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.

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.

2 Summary of Significant Accounting Policies *(Continued)*

2.6 Foreign Currency Translation *(Continued)*

(b) Transactions and Balances (Continued)

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.

2.7 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.

2 Summary of Significant Accounting Policies *(Continued)*

2.8 Property, Plant and Equipment *(Continued)*

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 4% 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.

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 recognized at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortization. Amortization 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.

2 Summary of Significant Accounting Policies *(Continued)*

2.9 Intangible Assets *(Continued)*

(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.

(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 recognized at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method in about eight years over the expected life of the customer relationship.

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 reorganization, 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.

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.

2.13 Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured 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 Summary of Significant Accounting Policies *(Continued)*

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.

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 Summary of Significant Accounting Policies *(Continued)*

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.

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 recognized 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 recognized 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 Summary of Significant Accounting Policies *(Continued)*

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.

(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.

2 Summary of Significant Accounting Policies *(Continued)*

2.22 Current and Deferred Income Tax *(Continued)*

(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.

(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 Summary of Significant Accounting Policies *(Continued)*

2.24 Share-based Payments

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

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

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

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

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

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

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

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

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

2 Summary of Significant Accounting Policies *(Continued)*

2.24 Share-based Payments *(Continued)*

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

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

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

(b) Share-based payment transactions among group entities

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

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

2.25 Revenue Recognition

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

(a) Sales of Goods

Sales of goods are recognized when 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 Summary of Significant Accounting Policies *(Continued)*

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.

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.

(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.

3 Financial Risk Management *(Continued)*

3.1 Financial Risk Factor *(Continued)*

(a) Market risk (Continued)

(i) Foreign exchange risk *(Continued)*

At 31 December 2017, if USD had weakened/strengthened by 5% against RMB with all other variables held constant, profit before tax for the year would have been HKD21,554,000 (2016: HKD14,637,000) 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 2017, the Group did not hold any equity securities that were traded publicly. Accordingly, it was not exposed to commodity price risk (2016: none) as at 31 December 2017.

(iii) Cash flow and fair value interest rate risk

As at 31 December 2017, except for the term deposits and pledged bank deposits of HKD87,343,000 (2016: HKD364,395,000), which were held at fixed interest rate of 1.29% per annum (2016: 2.06% 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 (2016: 0.01% to 0.35%). Borrowings at variable rates at 2.06% to 5.22% (2016: 0.69% to 5.22%) 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.

(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.

3 Financial Risk Management *(Continued)*

3.1 Financial Risk Factor *(Continued)*

(b) *Credit Risk (Continued)*

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.

	Less than 1 year HKD'000
At 31 December 2017	
Borrowings (including interests)	**654,953**
Trade and other payables excluding statutory liabilities and advance from customers	**292,812**
	947,765
At 31 December 2016	
Borrowings (including interests)	714,355
Trade and other payables excluding statutory liabilities and advance from customers	238,352
	952,707

3 Financial Risk Management *(Continued)*

3.2 Capital Management

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

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

The Group monitors its capital risk based on the debt-to-equity ratio. 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 HKD332,918,000 as at 31 December 2017 (2016: HKD544,068,000).

The Group's debt-to-equity ratio is 16.4% at 31 December 2017 (2016: 38.1%).

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 2017.

	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	–	–	**97**	**97**
Financial assets at fair value through profit or loss (Note 17)	–	–	**18,816**	**18,816**

3 Financial Risk Management *(Continued)*

3.3 Fair Value Estimation *(Continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 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	–	–	97	97
Financial assets at fair value through profit or loss (Note 17)	–	–	18,394	18,394

The following table presents the changes in level 3 instruments for the years ended 31 December 2017 and 2016.

	Financial assets at fair value through profit or loss	
	2017 HKD'000	2016 HKD'000
At 1 January	**21,509**	1,322
Addition		
— Financial products	**–**	3,018
— Financial assets at fair value through profit or loss	**–**	18,394
Fair value change		
— Financial products	**1**	–
— Financial assets at fair value through profit or loss	**422**	–
Disposal	**(3,019)**	(1,225)
At 31 December	**18,913**	21,509
Total losses for the year included in profit or loss for assets held at the end of the year, under "Other gains — net" (Note 27)	**422**	(1,225)
Changes in unrealized losses for the year included in profit or loss at the end of the year	**422**	(1,225)

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 17).

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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) 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 2017.

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 major 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 2017 (2016: 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:

	2017	2016
	HKD'000	HKD'000
The PRC	**965,032**	742,025
Europe	**429,135**	433,801
North America	**326,299**	242,614
Other Asian countries excluding the PRC	**314,619**	179,879
	2,035,085	1,598,319

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

	2017	2016
	HKD'000	HKD'000
The PRC	**940,068**	732,863
Hong Kong	**204,426**	116,384
North America	**90,783**	96,262
	1,235,277	945,509

5 Segment Information *(Continued)*

(c) Revenue of approximately HKD229,692,000 (2016: HKD231,450,000) and trade receivables of approximately HKD95,144,000 (2016: HKD68,938,000) are derived from one (2016: one) external customer, which are more than 10% of the Group's total revenue and total trade receivables.

During the year ended 31 December 2017, revenue of approximately HKD504,752,000 (2016: HKD437,897,000) was derived from three customers, which comprised 25% (2016: 27%) 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:

	2017 **HKD'000**	2016 HKD'000
Outside of Hong Kong		
— Lease of 50 years	**24,865**	23,826

	2017 **HKD'000**	2016 HKD'000
At 1 January		
Opening net book amount	**23,826**	26,067
Amortization charge	**(609)**	(609)
Translation difference	**1,648**	(1,632)
Closing net book amount	**24,865**	23,826

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 2017 was 39 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 2016						
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
Year ended 31 December 2017						
Opening net book amount	**445,246**	**83,047**	**592**	**85,045**	**87,905**	**701,835**
Transfers	**59,467**	**620**	**–**	**–**	**(60,087)**	**–**
Additions	**–**	**135,256**	**41**	**75,531**	**30,069**	**240,897**
Disposals	**–**	**(566)**	**–**	**(1,457)**	**–**	**(2,023)**
Disposal of a subsidiary	**–**	**–**	**–**	**(363)**	**–**	**(363)**
Depreciation charge	**(11,658)**	**(25,417)**	**(337)**	**(31,744)**	**–**	**(69,156)**
Currency translation differences	**30,791**	**3,641**	**28**	**4,209**	**6,161**	**44,830**
Closing net book amount	**523,846**	**196,581**	**324**	**131,221**	**64,048**	**916,020**
At 31 December 2017						
Cost	**568,597**	**298,143**	**1,703**	**384,275**	**64,048**	**1,316,766**
Accumulated depreciation	**(44,751)**	**(101,562)**	**(1,379)**	**(253,054)**	**–**	**(400,746)**
Net book amount	**523,846**	**196,581**	**324**	**131,221**	**64,048**	**916,020**

7 Property, Plant and Equipment *(Continued)*

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

	2017 HKD'000	2016 HKD'000
Cost of sales	**44,898**	34,007
Selling and marketing costs	**211**	200
Research and development expenses	**15,812**	14,491
Administrative expenses	**8,235**	7,423
	69,156	56,121

(b) For the year ended 31 December 2017, lease rentals amounting to HKD12,499,000 (2016: HKD5,078,000) for leases of office buildings and plant of the Group had been included in the consolidated statement of profit or loss.

(c) As at 31 December 2017, construction in progress mainly comprised costs incurred for a new production plant under construction, which is located in Pingshan, Shenzhen, the PRC.

(d) As at 31 December 2017, the Group is in the process of applying the building ownership certificate of certain buildings with the aggregated carrying amounts amounted to HKD523,846,000 (31 December 2016: HKD445,246,000).

8 Other Non-Current Assets

	2017 HKD'000	2016 HKD'000
Prepayment for purchase of property, plant and equipment	**20,869**	15,292
Prepayment for equity investment (a)	**188,253**	116,328
Other prepayments	**125**	124
	209,247	131,744

(a) The Group entered into the Sale and Purchase Agreement with Advance Photonics Investment Limited ("API") on 21 April 2017, pursuant to which the Group has conditionally agreed to purchase and API has conditionally agreed to sell 3SP Technologies S.A.S. ("3SP"), representing 100% issued share capital of 3SP at the consideration of no more than USD20,500,000. Pursuant to the agreement, the Group also purchased from 3SP's loan of EUR3,600,000 on a dollar for dollar basis. According to the Sale and Purchase Agreement, the Group paid a deposit amounting to HKD188,253,000 to API's sole shareholder. The completion of the acquisition is subject to certain prerequisites which have not been satisfied as at 31 December 2017, as confirmed by the seller.

9 Intangible Assets

	Goodwill (a)	Trademark and License	Development Expenditure	Patent	Computer Software	Customer Relationships	Order Backlog	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
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 36)	5,860	–	–	–	–	9,019	2,334	17,213
Addition	–	–	14,599	–	1,824	–	–	16,423
Disposal	–	(48)	–	–	–	–	–	(48)
Impairment (Note 28)	–	–	(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
Year ended 31 December 2017								
Opening net book amount	**29,924**	**–**	**41,250**	**1,800**	**3,777**	**9,019**	**2,334**	**88,104**
Addition	**–**	**–**	**77**	**–**	**5,901**	**–**	**–**	**5,978**
Amortization charge	**–**	**–**	**(7,881)**	**(241)**	**(1,567)**	**(1,203)**	**(2,334)**	**(13,226)**
Translation difference	**–**	**–**	**1,769**	**13**	**10**	**–**	**–**	**1,792**
Closing net book amount	**29,924**	**–**	**35,215**	**1,572**	**8,121**	**7,816**	**–**	**82,648**
At 31 December 2017								
Cost	**29,924**	**–**	**53,449**	**5,394**	**13,273**	**9,019**	**2,334**	**113,393**
Accumulated amortization and impairment	**–**	**–**	**(18,234)**	**(3,822)**	**(5,152)**	**(1,203)**	**(2,334)**	**(30,745)**
Net book amount	**29,924**	**–**	**35,215**	**1,572**	**8,121**	**7,816**	**–**	**86,648**

The amortization charge mainly includes in cost of sales and administrative expenses in the consolidated statement of profit or loss (2016: Same).

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:

	2017 **HKD'000**	2016 HKD'000
At 1 January	**29,924**	24,064
Addition	**–**	5,860
At 31 December	**29,924**	29,924

Prior to 1 January 2017, the goodwill had been allocated to the cash-generating units ("CGU") comprising the business of Titan Photonics, Inc. ("Titan") and ArtIC respectively. The recoverable amount of that CGU is determined based on value-in-use calculations and no impairment losses had been recognized prior to 1 January 2017.

On 1 January 2017, the Group integrated the business of Titan and ArtIC with the Group's optical networking business in order to improve operation efficiency. As a result, the management considers that the business of Titan and ArtIC and the Group's optical networking business (collectively the "Combined Optical Networking Business") represents the lowest level of cash-generating units within the Group at which goodwill is monitored for internal management purposes. In addition, the Combined Optical Networking Business is not larger than an operating segment determined under with IFRS 8. Therefore, the Group has reallocated the goodwill to the cash generating unit ("CGU") comprising the Combined Optical Networking Business.

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:

	2017	2016	
	Optical networking business	Titan	ArtIC
Growth rate	**3%**	2%	3%
Discount rate	**16%**	19%	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 2017.

9 Intangible Assets *(Continued)*

(b) Research and development costs amounting to HKD230,897,000 were incurred for the year ended 31 December 2017 (2016: HKD202,411,000), of which cost of HKD77,000 (2016: HKD14,599,000) 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.

10 Financial Instruments by Category

	Loans and receivables HKD'000	Assets at fair value through profit or loss HKD'000	Available-for-sale financial assets HKD'000	Total HKD'000
Assets				
At 31 December 2017:				
Derivative financial instruments	–	**97**	–	**97**
Available-for-sale financial assets (Note 11)	–	–	**12,272**	**12,272**
Trade and other receivables excluding prepayment (Note15)	**1,017,836**	–	–	**1,017,836**
Financial assets at fair value through profit or loss (Note 17)	–	**18,816**	–	**18,816**
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 18)	**408,092**	–	–	**408,092**
Total	**1,425,928**	**18,913**	**12,272**	**1,457,113**
At 31 December 2016:				
Derivative financial instruments	–	97	–	97
Available-for-sale financial assets (Note 11)	–	–	15,290	15,290
Trade and other receivables excluding prepayment (Note15)	661,311	–	–	661,311
Financial assets at fair value through profit or loss (Note 17)	–	18,394	–	18,394
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 18)	533,707	–	–	533,707
Total	1,195,018	18,491	15,290	1,228,799

10 Financial Instruments by Category *(Continued)*

	Financial liabilities at amortized cost	
	2017	2016
	HKD'000	HKD'000
Liabilities		
At 31 December 2017:		
Borrowings (Note 25)	**653,667**	713,380
Trade and other payables excluding statutory liabilities and advance from customers (Note 24)	**292,812**	238,352
	946,479	951,732

11 Available-for-sale Financial Assets

	2017	2016
	HKD'000	HKD'000
At 1 January	**15,290**	12,272
Additions	**–**	3,018
Fair value change	**1**	–
Disposal	**(3,019)**	–
At 31 December	**12,272**	15,290

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 market price, they are measured at cost less impairment at balance sheet date, which in the opinion of directors, approximated the fair value of the assets.

12 Subsidiaries

The following is a list of the principal subsidiaries at 31 December 2017:

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 Communications Holdings Limited ("O-Net BVI")	6 November 2006	BVI	USD28,991	100%	–	Investment holding
O-Net Communications (USA), Inc. ("O-Net USA")	20 August 2012	USA	USD100	–	100%	Research and development centre with major operation in USA
ITF Technologies, Inc. ("ITF")	25 May 1995	Canada	USD5,000,000	–	100%	Manufacturing and distributing fiber optics components and fiber sensors
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
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 Automation Technology (HK) Limited ("O-Net Auto")	27 June 2012	Hong Kong	HKD10,000	–	100%	Investment holding
O-Net Automation Technologies Holdings Limited	4 August 2016	BVI	–	–	100%	Investment holding
O-Net Materials Technology (Shenzhen) Limited	31 March 2017	Shenzhen, the PRC	RMB50,000,000	–	100%	Design, processing and manufacturing of Optoelectronic materials and devices, Shenzhen, the PRC

12 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 Coating and Materials Technologies (HK) Limited	22 August 2016	Hong Kong	HKD1	–	100%	Investment holding
O-Net Coating and Materials Technologies Holdings Limited	4 August 2016	BVI	–	–	100%	Investment holding
ArtIC Photonics, Inc. ("ArtIC") (b)	23 September 2013	Canada	HKD24,180,000	–	45.7%	Design and development of optical component products, Canada
Angzhan New Material Technology (Ningbo) Co. Ltd (c)	11 October 2016	Ningbo, the PRC	RMB10,000,000	–	65%	Design, processing, manufacturing, wholesale and retail of ceramic materials, Ningbo, the PRC

(a) Consolidation of structured entity

Due to the implementation of the restricted share award schemes of the Group mentioned in Note 21(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 2017, the Company contributed nil (2016: nil) 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.

(c) Angzhan New Material Technology (Ningbo) Co. Ltd was disposed of in May 2017.

13 Investments Accounted for Using Equity Method

The amounts recognized in the balance sheet are as follows:

	2017 HKD'000	2016 HKD'000
A joint venture (a)	**2,497**	–
At 31 December	**2,497**	–

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

	2017 HKD'000	2016 HKD'000
Share of loss from —		
A joint venture	**(3)**	(1,450)
For the year ended 31 December	**(3)**	(1,450)

(a) Investment in a Joint Venture

	2017 HKD'000	2016 HKD'000
At 1 January	**–**	15,553
Share of loss	**(3)**	(1,450)
Other comprehensive income	**–**	78
Addition	**2,500**	–
Disposal	**–**	(14,181)
At 31 December	**2,497**	–

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

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

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.

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 of. 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 17). 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 recognized in 2016.

On 2 August 2017, O-Net Coating and Materials Technologies (HK) Limited ("O-Net Coating") entered into an Agreement with OB Technologies (Hong Kong) Limited, formerly known as Butterfly Technologies (Hong Kong) Limited ("OB") in relation to the formation of OB Technologies (Shenzhen) Limited, formerly known as O-Net Butterfly Technologies (Shenzhen) Limited ("the JV Company"). The total registered capital of the JV Company is HKD10,000,000 with each of O-Net Coating and OB investing HKD5,000,000. As stipulated in the joint venture agreement, the financial and operational policies of the JV Company must be decided jointly by O-Net Coating and OB.

14 Inventories

	2017 HKD'000	2016 HKD'000
Cost:		
Raw materials	**234,829**	167,579
Work-in-progress	**80,846**	69,469
Finished goods	**82,008**	52,101
	397,683	289,149
Less: provision for write-down of inventories to net realizable values	**20,212**	(19,370)
	377,471	269,779

For the year ended 31 December 2017, 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 HKD1,016,100,000 (2016: HKD806,135,000).

For the year ended 31 December 2017, the Group wrote back provision for write-down of inventories of HKD323,000 (2016: the Group made provision for write-down of inventories of HKD11,796,000).

15 Trade and Other Receivables

	2017 HKD'000	2016 HKD'000
Trade receivables (a)	**708,062**	461,778
Less: provision for impairment of receivables (b)	**(752)**	(1,106)
Trade receivables — net	**707,310**	460,672
Amounts due from related parties (a) (Note 36(d))	**379**	393
Bills receivable (c)	**193,062**	148,873
Prepayments	**30,425**	12,062
Interest receivables	**940**	1,675
Other receivables (d)	**116,145**	49,698
	1,048,261	673,373
Less non-current portion: other receivables (d)	**(73,213)**	(26,139)
Current portion	**975,048**	647,234

15 Trade and Other Receivables *(Continued)*

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 2017, the fair value of trade and other receivables of the Group approximated their carrying amounts (2016: Same).

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

	2017	2016
	HKD'000	HKD'000
RMB	**616,755**	367,582
USD	**405,650**	291,801
EUR	**17,040**	–
CAD	**6,209**	6,157
HKD	**467**	7,578
Others	**2,140**	255
	1,048,261	673,373

(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:

	2017	2016
	HKD'000	HKD'000
Within 30 days	**267,158**	194,624
31 to 60 days	**192,290**	139,292
61 to 90 days	**165,609**	82,839
91 to 180 days	**60,589**	38,240
181 to 365 days	**21,554**	5,225
Over 365 days	**1,241**	1,653
	708,441	461,873

At 31 December 2017, trade receivables of HKD194,242,000 (2016: HKD105,627,000) 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.

15 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:

	2017 **HKD'000**	2016 HKD'000
Past due 1 to 90 days	**179,591**	94,119
Past due 91 to 180 days	**8,188**	5,928
Past due 181 to 365 days	**6,001**	4,038
Past due over 365 days	**462**	1,542
	194,242	105,627

At 31 December 2017, trade receivables of HKD752,000 (2016: HKD1,106,000) were impaired. All these balances had been fully provided for impairment losses. The ageing analysis of these trade receivables is based on invoice date as follows:

	2017 **HKD'000**	2016 HKD'000
Past due over 365 days	**752**	1,106

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

	2017 **HKD'000**	2016 HKD'000
At 1 January	**1,106**	1,639
(Reversal)/provision of impairment	**(248)**	49
Write-off	**(174)**	(486)
Translation difference	**68**	(96)
At 31 December	**752**	1,106

15 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:

	2017	2016
	HKD'000	HKD'000
Within 30 days	**12,874**	21,269
31 to 90 days	**98,042**	42,620
91 to 180 days	**78,625**	79,206
181 days to 365 days	**3,521**	5,778
	193,062	148,873

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 HKD28,005,000 (2016: HKD26,139,000), pursuant to an agreement signed between O-Net Shenzhen, a subsidiary of the Company, and IPI in 2014. Under the agreement, O-Net Shenzhen will ensure stable supply of goods by IPI from 2014 to 2019. In return, O-Net Shenzhen paid USD3,434,000 (equivalent to 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.

The remaining balance amounting to HKD45,208,000 (2016: Nil) is the loan provided to 3SP (Note 8). The Group has agreed to acquire the entire issued shares of 3SP, and the loan will become shareholder's loan upon completion.

16 Other Current Asset

	2017	2016
	HKD'000	HKD'000
Deferred expenses	**1,552**	6,487
Value-added tax to be recovered	**–**	11,590
	1,552	18,077

17 Financial Assets at Fair Value Through Profit or Loss

	2017	2016
	HKD'000	HKD'000
Fair value through profit or loss (Note 13)	**18,816**	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:

	2017	2016
Risk-free rate	**0.42% & 1.53%**	0.10% & 1.00%
Expected volatility	**40.6% & 44.4%**	53.2% & 56.5%
Expected dividend yield	**0.00%**	0.00%

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

	2017	2016
	HKD'000	HKD'000
Cash and cash equivalents	**320,749**	169,312
Term deposits with initial term of over three months	**2,492**	10,026
Pledged bank deposits (a)	**84,851**	354,369
	408,092	533,707

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

(a) The pledged bank deposits had been pledged as guarantee for payables to suppliers for purchasing of goods and machineries 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:

	2017	2016
	HKD'000	HKD'000
RMB	**237,728**	288,510
USD	**157,871**	229,214
Others	**12,493**	15,983
	408,092	533,707

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 2017 was 1.29% (2016: 2.06%).

19 Share Capital, Share Premium and Treasury Shares

	Number of ordinary shares	**Ordinary share capital**	**Share premium**	**Treasury shares**
		HKD'000	HKD'000	HKD'000
At 1 January 2016	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)
Issuance of new shares (a)	50,000,000	500	261,665	–
Exercise of share options	7,081,000	71	12,859	–
At 31 December 2017	798,467,240	7,985	1,100,025	(74,927)

(a) During the year ended 31 December 2017, the Company issued 50,000,000 ordinary shares.

20 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 income of investment in joint venture HKD'000	Total HKD'000
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)
At 1 January 2017	**1,330**	**136,145**	**(85,421)**	**(58,187)**	**–**	**(6,133)**
Share option schemes — value of services	**–**	**(787)**	**–**	**–**	**–**	**(787)**
Share award schemes — value of services	**–**	**23,508**	**–**	**–**	**–**	**23,508**
Reversal of recognized other comprehensive loss in a subsidiary investment upon disposal	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Currency translation differences	**–**	**–**	**–**	**103,855**	**–**	**103,855**
At 31 December 2017	**1,330**	**158,866**	**(85,421)**	**45,667**	**–**	**120,442**

21 Share-Based Payments

(a) Share Option Schemes

(i) 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.

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 2017	Exercise price	Vesting date
10 October 2011	Tranches 1, 2, 3, 4 & 5: 800,000 (Total: 4,000,000)	2,000,000	HKD1.870	Tranches 1, 2, 3, 4 & 5 (for a senior management personnel): vesting period commences at the end of the anniversary of the grant date, equally over a period of 5 years.
1 June 2012	Tranche 1: 14,929,000 Tranche 2: 1,360,000 Tranche 3: 4,390,000 Tranche 4: 13,172,000 (Total: 33,851,000)	7,567,000	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)	–	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.

21 Share-Based Payments *(Continued)*

(a) Share Option Schemes *(Continued)*

(i) 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 2017	Exercise price	Vesting date
22 April 2013	Tranche 1: 200,000 Tranche 2: 2,350,000 Tranche 3: 350,000 (Total: 2,900,000)	1,200,000	HKD1.680	Tranche 1 (for certain employees): vesting period commences at 12 February 2014, equally over a period of 5 years. Tranche 2 (for certain employees): vesting period commences at 3 March 2014, equally a period of 5 years. Tranche 3 (for certain employees): vesting period commences at 7 April 2014, equally over a period of 5 years
11 September 2013	Tranches 1, 2, 3, 4 & 5: 400,000 (Total: 2,000,000)	–	HKD1.708	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 11 September 2014, equally over a period of 5 years.
25 September 2013	Tranches 1, 2, 3, 4 & 5: 70,000 (Total: 350,000)	140,000	HKD1.652	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 13 August 2014, equally over a period of 5 years.
16 October 2013	Tranches 1, 2, 3 & 4: 1,000,000 (Total: 4,000,000)	4,000,000	HKD1.628	Tranches 1, 2, 3 & 4 (for certain employees): vesting period commences at 14 October 2014, equally over a period of 4 years.
8 November 2013	Tranches 1, 2, 3, 4 & 5: 2,060,000 (Total: 10,300,000)	3,265,000	HKD1.484	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 8 November 2014, equally over a period of 5 years.
9 April 2014	Tranches 1, 2, 3, 4 & 5: 374,000 (Total: 1,870,000)	872,000	HKD2.400	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 28 March 2015, equally over a period of 5 years.
		19,044,000		

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

21 Share-Based Payments *(Continued)*

(a) Share Option Schemes *(Continued)*

(ii) Movements in the number of share options outstanding and their related weighted average exercise prices:

	2017 Average exercise price in HKD per share option	**2017** Options (thousands)	2016 Average exercise price in HKD per share option	2016 Options (thousands)
At 1 January	**1.80**	**28,099**	1.80	38,959
Granted	**–**	**–**	–	–
Forfeited	**1.70**	**(1,974)**	1.53	(983)
Exercised	**1.83**	**(7,081)**	1.88	(9,455)
Expired	**–**	**–**	–	(422)
At 31 December	**1.78**	**19,044**	1.80	28,099

As at 31 December 2017, out of the 19,044,000 outstanding options (2016: 28,099,000 shares) 16,699,000 options (2016: 23,179,000 shares) were exercisable. 7,081,000 options were exercised in 2017 (2016: 9,455,000 options).

(iii) 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 2017**	**Options (thousands)** **2017**	2016
2020	1.78	**19,044**	28,099

(iv) Fair value of options

No share options were granted during 2017 and 2016. 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.

21 Share-Based Payments *(Continued)*

(b) Restricted Share Award Schemes

On 9 May 2014, the Company adopted a restricted share award scheme as an incentive to recognize the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. The Company appointed O-Net Share Award Plan Limited as the trustee.

Movements in the number of shares held for the Restricted Share Award Schemes and awarded shares for the year ended 31 December 2017 are as follows:

	Number of shares held for the Restricted Share Award Schemes	Number of awarded shares
At 1 January 2017	19,159,000	41,960,000
Granted	(3,300,000)	3,300,000
At 31 December 2017	**15,859,000**	**45,260,000**

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 exercised 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 year ended 31 December 2017 are as follows:

	Number of Shares (thousand)	Share price HKD	Fair value HKD'000
At 1 January 2017	41,960	2.23	93,600
Award Shares granted to the employees on 17 June 2017	2,300	4.00	9,200
Award Shares granted to the employees on 13 September 2017	1,000	5.24	5,240
At 31 December 2017	**45,260**	**2.39**	**108,040**

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.

22 Retained Earnings

	2017 HKD'000	2016 HKD'000
At 1 January	**669,119**	538,516
Profit for the year	**208,867**	130,603
At 31 December	**877,986**	669,119

23 Deferred Government Grants

	2017 HKD'000	2016 HKD'000
At 1 January	**30,484**	15,852
Receipt of grant during the year (a)	**2,871**	18,450
Credited to statement of profit or loss	**(19,679)**	(2,905)
Currency translation difference	**1,431**	(913)
At 31 December	**15,107**	30,484

(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 RMB720,000 (equivalent to HKD861,000) in 2017 (2016: HKD18,450,000).

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.

24 Trade and Other Payables

	2017 HKD'000	2016 HKD'000
Trade payables (a)	**234,920**	198,110
Bills payable (c)	**16,971**	–
Accrued expenses	**27,996**	24,650
Payroll payables	**51,736**	44,315
Other payables	**12,925**	15,592
Advance from customers	**9,051**	3,663
Other taxes payable	**13,170**	3,781
	366,769	290,111

At 31 December 2017, the fair value of trade and other payables of the Group approximated their carrying amounts due to their short maturities (2016: Same).

24 Trade and Other Payables *(Continued)*

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

	2017 HKD'000	2016 HKD'000
Within 30 days	**96,548**	117,992
31 to 60 days	**68,581**	42,657
61 to 180 days	**55,537**	29,035
181 to 365 days	**7,607**	2,734
Over 365 days	**6,647**	5,692
	234,920	198,110

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

	2017 HKD'000	2016 HKD'000
RMB	**214,547**	189,058
USD	**134,646**	83,525
CAD	**13,646**	10,304
HKD	**2,462**	7,133
Others	**1,468**	91
	366,769	290,111

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

	2017 HKD'000	2016 HKD'000
Within 30 days	**477**	–
31 to 90 days	**3,499**	–
91 to 180 days	**12,995**	–
	16,971	–

25 Borrowing

	2017 HKD'000	2016 HKD'000
Non-current		
Bank borrowings, secured	**–**	29,082
Current		
Bank borrowings, secured	**254,092**	613,039
Bank borrowings, unsecured	**399,575**	71,259
	653,667	684,298
	653,667	713,380

Bank borrowings mature until 2019 and bear average coupons of 3.99% annually (2016: 3.35% annually).

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% in 2016 and are within level 2 of the fair value hierarchy.

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

	2017 HKD'000	2016 HKD'000
USD	**282,813**	407,449
RMB	**370,854**	305,931
	653,667	713,380

The Group has the following undrawn borrowing facilities:

	2017 HKD'000	2016 HKD'000
Fixed rate:		
— Expiring within one year	**312,795**	27
— Expiring beyond one year	**50,000**	129,274
	362,795	129,301

The facilities expiring within one year are annual facilities subject to review at various dates during 2017. The other facilities have been arranged to help finance the proposed expansion of the Group's activities in PRC.

26 Deferred Income Tax

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

	2017 HKD'000	2016 HKD'000
Total deferred tax assets	**7,052**	18,660
Set-off of deferred tax liabilities pursuant to set-off provisions	**(5,002)**	(6,255)
Net deferred tax assets	**2,050**	12,405
Total deferred tax liabilities	**7,500**	9,441
Set-off of deferred tax liabilities pursuant to set-off provisions	**(5,002)**	(6,255)
Net deferred tax liabilities	**2,498**	3,186

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 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
At 1 January 2017	**469**	**2,971**	**4,573**	**636**	**6,953**	**3,058**	**18,660**
Credited/(charged) to the consolidated statement of profit or loss	**936**	**(553)**	**(2,536)**	**–**	**(6,928)**	**(3,158)**	**(12,239)**
Translation difference	**66**	**188**	**230**	**47**	**–**	**100**	**631**
At 31 December 2017	**1,471**	**2,606**	**2,267**	**683**	**25**	**–**	**7,052**

26 Deferred Income Tax *(Continued)*

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related benefit through the future taxable profits is probable. The Group did not recognize deferred income tax assets of HKD17,670,000 (2016: HKD14,331,000) in respect of losses amounting to HKD67,778,000 (2016: HKD49,251,000) that can be carried forward against future taxable income. Losses amounting to HKD1,549,000 (2016: zero), HKD6,052,000 (2016: HKD6,052,000), HKD2,965,000 (2016: HKD2,965,000), HKD50,442,000 (2016:zero) expire in 2022, 2035, 2036 and 2037 respectively, and HKD6,770,000 has no expiry date.

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 2017, deferred income tax liabilities of approximately HKD94,731,000 (2016: HKD70,569,000) had not been recognized for withholding tax that would be payable on the unremitted earnings of approximately HKD947 million (2016: HKD706 million) of the PRC subsidiary. The directors of the PRC subsidiary had resolved not to distribute these earnings in the foreseeable future.

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 2016	1,693	2,014	3,707
Business combination (Note 36)	–	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
At 1 January 2017	**5,942**	**3,499**	**9,441**
Charged to the consolidated statement of profit or loss	**(1,433)**	**(749)**	**(2,182)**
Translation difference	**241**	**–**	**241**
At 31 December 2017	**4,750**	**2,750**	**7,500**

27 Other Gains — Net

	2017	2016
	HKD’000	HKD’000
Government grants (a)	**48,753**	13,274
Rental income	**1,604**	1,531
Gain on sales of scrapped or surplus raw materials	**7,201**	2,440
Loss on disposal of property, plant and equipment — net	**(466)**	(595)
Loss on disposal of a subsidiary	**(59)**	–
Fair value gain on derivative financial instruments	**422**	–
Loss on disposal of call option in equity investment	**–**	(1,225)
Gain on disposal of investments accounted for using equity method (Note 13)	**–**	4,205
Net foreign exchange loss	**(28,607)**	–
Others	**1,572**	1,618
	30,420	21,248

(a) Included in the government grant are amortization of deferred government grant of HKD17,739,000 (2016: HKD2,905,000), the remaining was mainly cash received from the Department of Science and Technology of Guangdong Province and was recognized during the year upon receipt.

28 Expenses by Nature

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

	2017 HKD'000	2016 HKD'000
Staff costs — excluding share options granted to directors and employees (Note 29)	**501,595**	414,687
Share options and share award granted to directors and employees (Note 29)	**22,721**	17,082
Raw materials consumed (Note 14)	**1,057,384**	814,376
Changes in inventories of finished goods and work in progress (Note 14)	**(41,284)**	(8,241)
Depreciation (Note 7)	**69,156**	56,121
Amortization (Notes 6, 9)	**13,835**	5,539
Provision/(write-back) of trade receivable impairment (Note 15(b))	**(248)**	49
Provision/(write-back) for write-down of inventories (Note 14)	**(323)**	11,796
Impairment loss on development expenditure	**–**	4,378
Sales commissions	**20,559**	17,486
Utilities charges	**50,382**	36,701
Operating lease rental (Note 7(b))	**12,499**	5,078
Freight charges	**16,259**	12,020
Auditors' remuneration	**3,003**	2,609
Professional and consultancy fees	**17,129**	19,221
Travelling expenses	**8,111**	6,704
Advertising costs	**1,294**	1,813
Other tax levies	**17,119**	11,991
Others	**23,519**	27,945
	1,792,710	1,457,355

29 Employee Benefit Expense

	2017 HKD'000	2016 HKD'000
Salaries, bonus and other welfares	**482,068**	396,992
Pension — defined contribution plans	**19,527**	17,695
Share options and share award granted to directors and employees	**22,721**	17,082
	524,316	431,769

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 2017 and 2016, 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.

30 Finance Income and Cost

	2017 HKD'000	2016 HKD'000
Finance expense		
— Bank borrowings	**(18,375)**	(4,702)
— Other bank charges	**(7,588)**	(10,854)
Total finance expenses	**(25,963)**	(15,556)
Finance income		
— Interest income derived from bank deposits	**5,227**	3,869
— Exchange (loss)/gain	**(3,114)**	5,291
Total finance income	**2,113**	9,160
Net finance expense	**(23,850)**	(6,396)

31 Income Tax Expenses

	2017 **HKD'000**	2016 HKD'000
Current income tax		
— USA profits tax (c)	**389**	3,066
— Canada profits tax (d)	**2,488**	918
— PRC enterprise income tax (e)	**30,176**	22,436
Total current income tax	**33,053**	26,420
Deferred income tax (Note 26)	**10,057**	(859)
Income tax expenses	**43,110**	25,561

(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 2017 to 2019. The applicable tax rate for O-Net Auto SZ is 25%.

31 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:

	2017	2016
	HKD'000	HKD'000
Profit before income tax	**248,942**	154,366
Tax calculated at statutory tax rates applicable to entities comprising the Group	**49,867**	35,757
Tax effect of:		
Research and development costs eligible for additional deduction	**(15,846)**	(11,238)
Utilization of previously unrecognized tax losses	**–**	(1,408)
Recognition of deferred tax assets unrecognized in prior year	**–**	(3,223)
Tax losses of which no deferred income tax asset was recognized	**3,339**	1,572
Income not subject to tax	**–**	(860)
Expenses not deductible for tax purposes		
— Share option expenses	**3,786**	3,632
— Others	**1,964**	1,329
Income tax expenses	**43,110**	25,561

32 Dividends

The Board does not recommend any final dividend for the year ended 31 December 2017 (2016: nil).

33 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.

	2017	2016
Profit attributable to equity holders of the Company (HKD'000)	**208,867**	130,603
Weighted average number of ordinary shares in issue (thousands)	**751,323**	711,010
Basic EPS (HKD per share)	**0.28**	0.18

(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.

	2017	2016
Profit attributable to equity holders of the Company (HKD'000)	**208,867**	130,603
Weighted average number of ordinary shares in issue (thousands shares)	**751,323**	711,010
Adjustments for share options and share award (thousands shares)	**32,500**	25,674
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	**783,823**	736,684
Diluted EPS (HKD per share)	**0.27**	0.18

34 Cash Generated from Operations

(a) Reconciliation from profit before income tax to cash generated from operations:

	2017 HKD'000	2016 HKD'000
Profit before income tax	**248,942**	154,366
Adjustments for:		
Depreciation and amortization (Notes 6, 7, 9)	**82,991**	61,660
(Reversal of)/provision of inventories (Note 14)	**(323)**	11,796
(Reversal of)/impairment provision for doubtful receivables (Note 15)	**(248)**	49
Impairment on development expenditure	**–**	4,378
Loss on disposal of property, plant and equipment	**466**	595
Interest income (Note 30)	**(5,227)**	(3,869)
Interest expense (Note 30)	**18,375**	4,702
Share of loss of investments accounted for using equity method (Note 13)	**3**	1,450
Loss on disposal of call option in the equity investment	**–**	1,225
Fair value gain on financial asset at fair value through profit or loss (Note 27)	**(422)**	–
Gain on disposal of investments accounted for using equity method (Note 27)	**–**	(4,205)
Loss on disposal of a subsidiary (Note 27)	**59**	–
Fair value gain on available-for-sale (Note 11)	**(1)**	–
Fair value of share options and share award charged to profit or loss (Note 28)	**22,721**	17,082
Changes in working capital:		
— Inventories	**(108,533)**	(53,164)
— Trade and other receivables	**(311,844)**	(170,266)
— Trade and other payables	**70,214**	(76,533)
Cash generated from/(used in) operating activities	**17,173**	(50,734)

34 Cash Generated from Operations *(Continued)*

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	**2017** **HKD'000**	2016 HKD'000
Cash and cash equivalents	**320,749**	169,312
Borrowings — repayable within one year (including overdraft)	**(653,667)**	(684,298)
Borrowings — repayable after one year	**–**	(29,082)
Net debt	**(332,918)**	(544,068)
Cash and liquid investments	**320,749**	169,312
Gross debt — fixed interest rates	**(581,361)**	(606,746)
Gross debt — variable interest rates	**(72,306)**	(106,634)
Net debt	**(332,918)**	(544,068)

	Other assets	**Liabilities from financing activities**		
	Cash/ bank overdraft HKD'000	**Borrow due within 1 year HKD'000**	**Borrow due after 1 year HKD'000**	**Total HKD'000**
Net debt as at 31 December 2016	**169,312**	**(684,298)**	**(29,082)**	**(544,068)**
Cash flows	**131,086**	**55,386**	**29,082**	**215,554**
Foreign exchange adjustments	**20,351**	**(24,755)**	**–**	**(4,404)**
Net debt as at 31 December 2017	**320,749**	**(653,667)**	**–**	**(332,918)**

35 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:

	2017	2016
	HKD'000	HKD'000
Not later than one year	**9,296**	9,121
Later than one year	**12,682**	18,583
	21,978	27,704

Capital Commitments

	2017	2016
	HKD'000	HKD'000
Capital expenditure contracted but not provided for	**15,943**	8,298

36 Related Party Transactions

(a) Name and Relationship with Related Parties

Name	**Relationship**
Butterfly Technology (Shenzhen) Ltd., Co. ("Butterfly Technology")	Controlled by key management personnel of the Company.
O-Net WaveTouch Limited ("WaveTouch")	Joint Venture (*)

* From October 2016, O-Net WaveTouch Limited was no longer the related party 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.

36 Related Party Transactions *(Continued)*

(b) Transactions with Related Parties

The Group had undertaken the following significant transactions with related parties during the years ended 31 December 2017 and 2016:

	2017 HKD'000	2016 HKD'000
Sales of goods		
Butterfly Technology	**1,082**	2,020
Rental income received from a related party		
Butterfly Technology	**1,595**	1,531

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

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

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

	2017 HKD'000	2016 HKD'000
Salaries, bonus and other welfares	**20,975**	20,408
Pension — defined contribution plans	**106**	838
Share option expenses	**3,507**	2,156
	24,588	23,402

(d) Balances with Related Parties

In 2017 and 2016, the Group had the following balances with related parties:

	2017 HKD'000	2016 HKD'000
Trade receivables (i)		
Butterfly Technology	**96**	95
Other receivables (i)		
Butterfly Technology	**283**	–
WaveTouch	**–**	298

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

37 Balance Sheet and Reserve Movement of the Company

Balance Sheet of the Company

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

	Note	As at 31 December 2017 HKD'000	2016 HKD'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**559,986**	537,039
Current assets			
Trade and other receivables		**664,520**	390,992
Cash and cash equivalents		**1,702**	1,589
		666,222	392,581
Total assets		**1,226,208**	929,620
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**7,985**	7,414
Share premium		**1,100,025**	825,501
Treasury shares		**(74,926)**	(74,926)
Other reserves	(a)	**135,969**	105,128
Retained earnings		**(20,202)**	(9,888)
Total equity		**1,148,851**	853,229
LIABILITIES			
Current liabilities			
Trade and other payables		**77,357**	76,391
Total liabilities		**77,357**	76,391
Total equity and liabilities		**1,226,208**	929,620

The balance sheet of the Company was approved by the Board of Directors on 20 March 2018 and was signed on its behalf.

Na Qinglin
Director

Chen Zhujiang
Director

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

(a) Reserve movement of the Company

	Capital redemption reserve HKD'000	Share-based compensation HKD'000	Currency translation reserve HKD'000	Total HKD'000
At 1 January 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
At 1 January 2017	**1,305**	**104,861**	**(1,038)**	**105,128**
Share option scheme — value of services	**–**	**22,721**	**–**	**22,721**
Currency translation differences	**–**	**–**	**8,120**	**8,120**
At 31 December 2017	**1,305**	**127,582**	**7,082**	**135,969**

38 Benefits and Interests of Directors

(a) Directors' Emoluments

The remuneration of each director of the Company for the year ended 31 December 2017 is set out below:

Name of director	Fees	Salary	Share options expense	Other benefits and allowance	Pension scheme contribution	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Mr. Na Qinglin (i)	**144**	**3,600**	**–**	**910**	**18**	**4,672**
Mr. Chen Zhujiang	**–**	**144**	**–**	**–**	**–**	**144**
Mr. Huang Bin	**–**	**144**	**–**	**–**	**–**	**144**
Mr. Tam Man Chi	**–**	**144**	**–**	**–**	**–**	**144**
Mr. Deng Xinping	**287**	**–**	**–**	**–**	**–**	**287**
Mr. Ong Chor Wei	**287**	**–**	**–**	**–**	**–**	**287**
Mr. Zhao Wei	**287**	**–**	**71**	**–**	**–**	**358**
	1,005	**4,032**	**71**	**910**	**18**	**6,036**

The remuneration of each director of the Company for the year ended 31 December 2016 is set out below:

Name of director	Fees	Salary	Share options expense	Other benefits and allowance	Pension scheme contribution	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	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

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

38 Benefits and Interests of Directors *(Continued)*

(b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group include one director for the year ended 31 December 2017 (2016: one), whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining four (2016: four) individuals are as follows:

	2017	2016
	HKD'000	HKD'000
Basic salaries	**11,456**	10,175
Pension costs	**70**	419
Bonus	**1,721**	1,989
Share option expenses	**4,039**	742
	17,286	13,325

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

	2017	2016
Emolument bands		
HKD1,500,001 — HKD2,000,000	**–**	1
HKD2,000,001 — HKD2,500,000	**1**	3
HKD2,500,001 — HKD3,000,000	**2**	–
HKD3,000,001 — HKD3,500,000	**–**	–
HKD3,500,001 — HKD4,000,000	**–**	1
HKD4,000,001 — HKD4,500,000	**1**	–
HKD4,500,001 — HKD5,000,000	**1**	–

No emoluments has been paid to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2017 (2016: 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 (2016: nil).

(d) Directors' termination benefits

No termination on the appointment of director and chief executive of the Company and certain subsidiaries occurred in 2017, thus no related termination benefits was paid.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: nil).

Five-Year Financial Summary

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

CONSOLIDATED INFORMATION

For the year ended 31 December

	2017	2016	2015	2014	2013
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Profitability and operating data					
Turnover	**2,035,085**	1,598,319	1,135,495	831,280	661,502
Gross profit	**726,473**	569,685	362,557	288,949	211,778
Selling and marketing costs	**76,152**	63,408	49,450	36,386	30,319
Research and development expenses	**230,820**	187,812	135,080	105,952	88,979
Administrative expenses	**177,126**	177,501	134,024	107,206	98,129
Profit before income tax	**248,942**	154,366	82,078	51,364	15,039
Profit for the year	**205,832**	128,805	79,249	43,344	13,375
Profit attributable to equity holders of the Company	**208,867**	130,603	82,535	43,344	13,375
Profitability ratios					
Gross profit margin	**35.7%**	35.6%	31.9%	34.8%	32.0%
Profit before tax margin	**12.2%**	9.7%	7.2%	6.2%	2.3%
Profit* margin	**10.3%**	8.2%	7.3%	5.2%	2.0%
Operating ratios					
(as a percentage of revenue)					
Selling and marketing costs	**3.7%**	4.0%	4.4%	4.4%	4.6%
Research and development expenses	**11.3%**	11.8%	11.9%	12.7%	13.5%
Administrative expenses	**8.7%**	11.1%	11.8%	12.9%	14.8%

As at 31 December

	2017	2016	2015	2014	2013
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Assets and liabilities data					
Non-current assets	**1,322,909**	999,440	858,707	766,374	643,062
Current assets	**1,780,979**	1,487,191	914,258	780,786	940,059
Non-current liabilities	**17,605**	62,752	15,852	14,176	6,118
Current liabilities	**1,053,188**	995,176	422,284	211,504	202,945
Equity	**2,033,095**	1,428,703	1,334,829	1,321,480	1,374,058

* Profit means profit attributable to equity holders of the Company