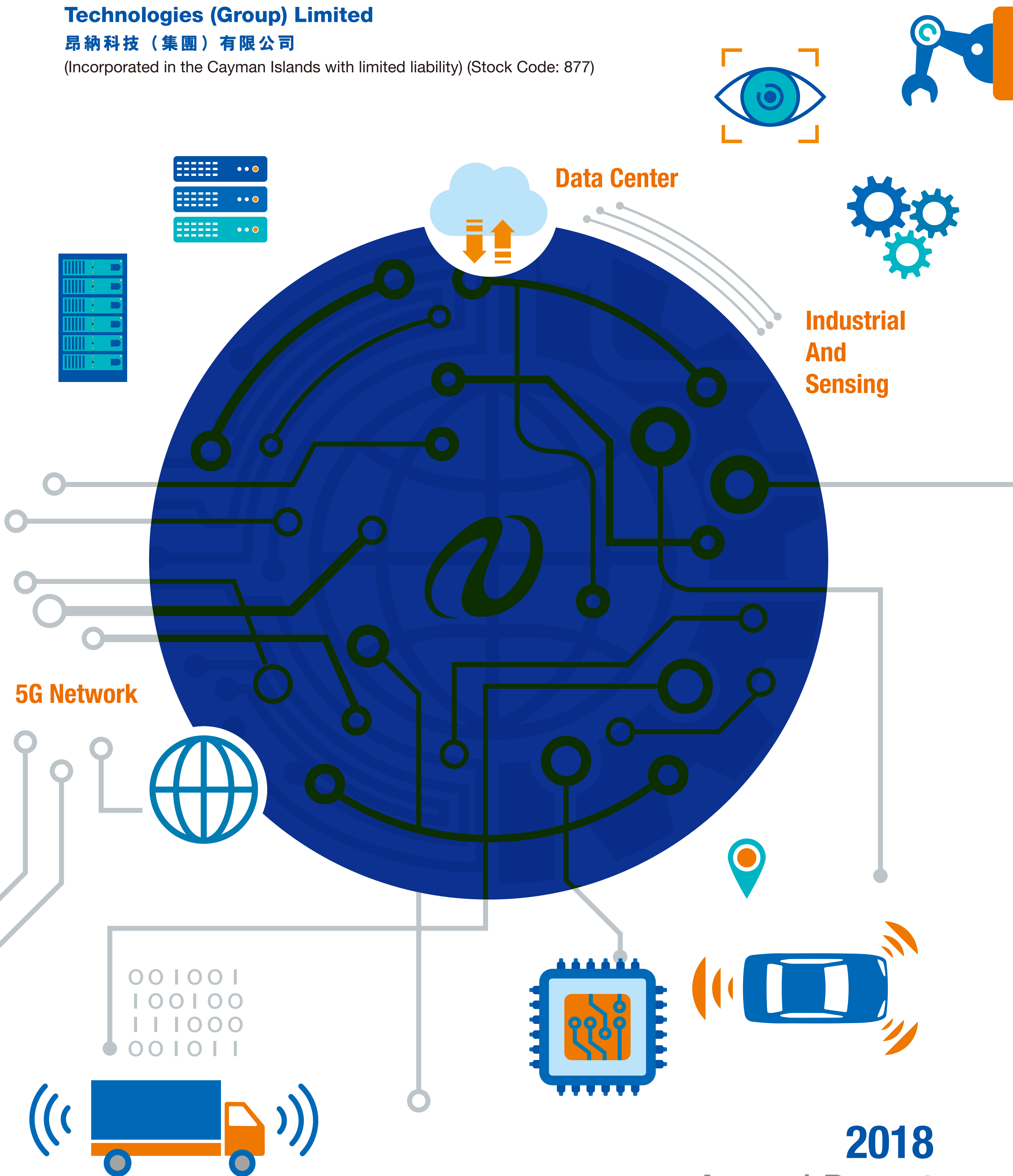
O-Net

Technologies (Group) Limited

昂納科技（集團）有限公司

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



2018
Annual Report

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; and (2) industrial and sensing 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, automation and heating modules for the E-Cigarette industry, and consumer electronics, 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, The United States of America, Canada, France, Taiwan, Korea and Germany and employs about 5,200-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).

Profit attributable to equity holders increased by

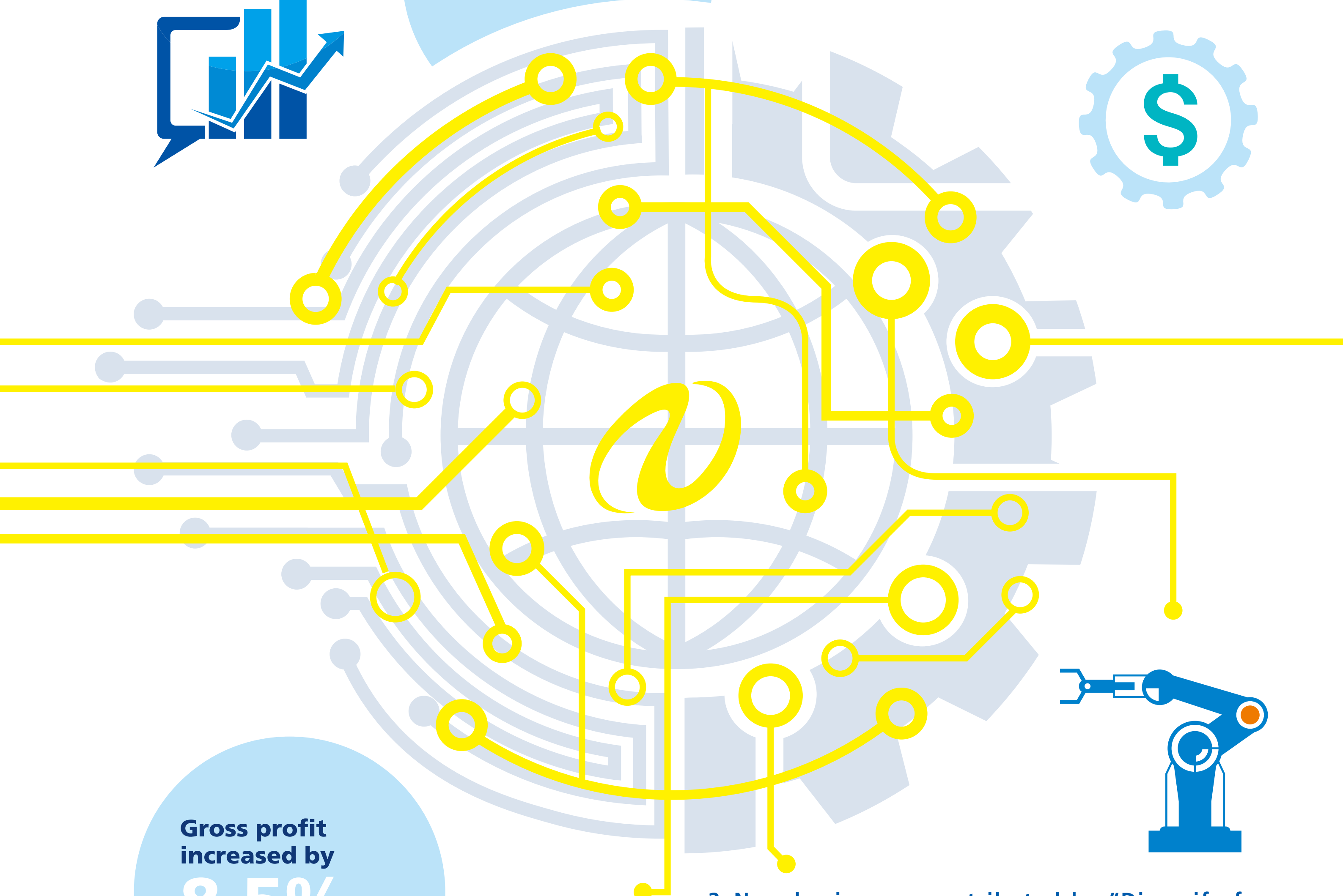
25.3%

to HKD261.8 million

Revenue increased by

23.6%

to HKD2,516.4 million



Gross profit increased by

8.5%

to HKD788.0 million

Earnings per share increased by

25.0%

to HKD0.35 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

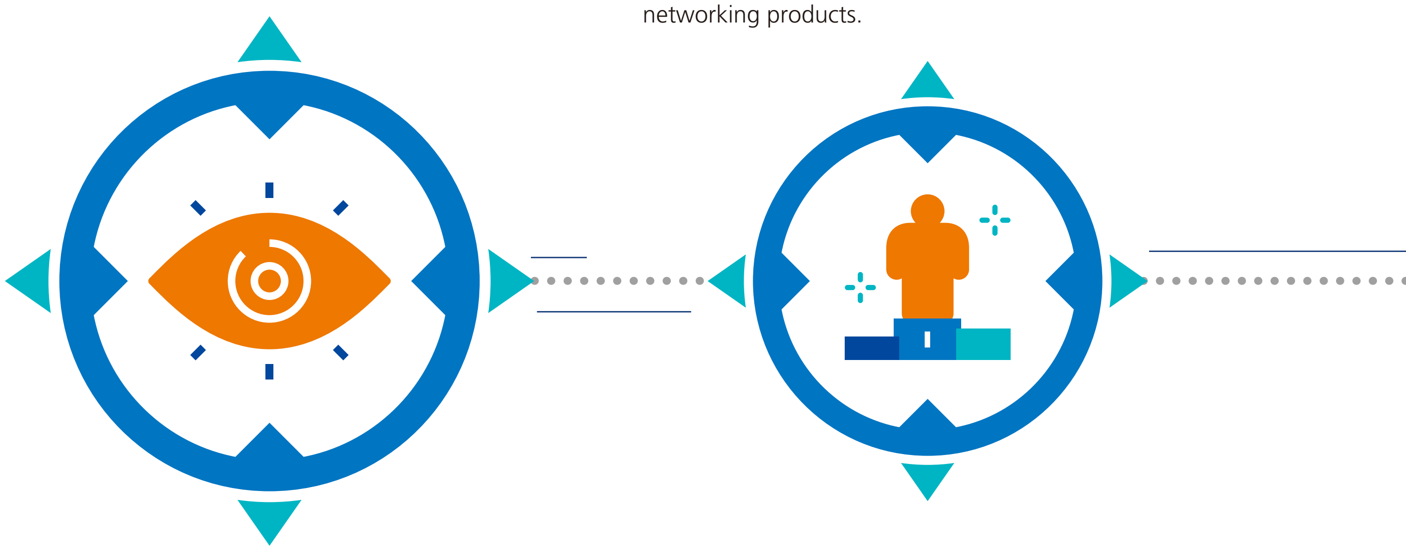
- Tapped the consumer market with outstanding returns and growth attributable to the strong demand from a leading American E-Cigarette brand
- Tapped fast-growing multi-kilowatt laser market by offering 2 kilowatt laser engine and 6 kilowatt laser combiners, as well as discrete optical components capable of handling 3 kilowatts of power
- Added new customers for LiDAR components and extended the penetration in the autonomous vehicle market
- Maintained impressive growth in Machine Vision and automation sales

Contents

The objectives of the Group

As a leading optical networking company, devoted to:

- increase market share with its diversified product portfolio for both existing and new customers;
- 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
- invest in overseas companies with high proprietary technologies in chip level for the active optical networking products.



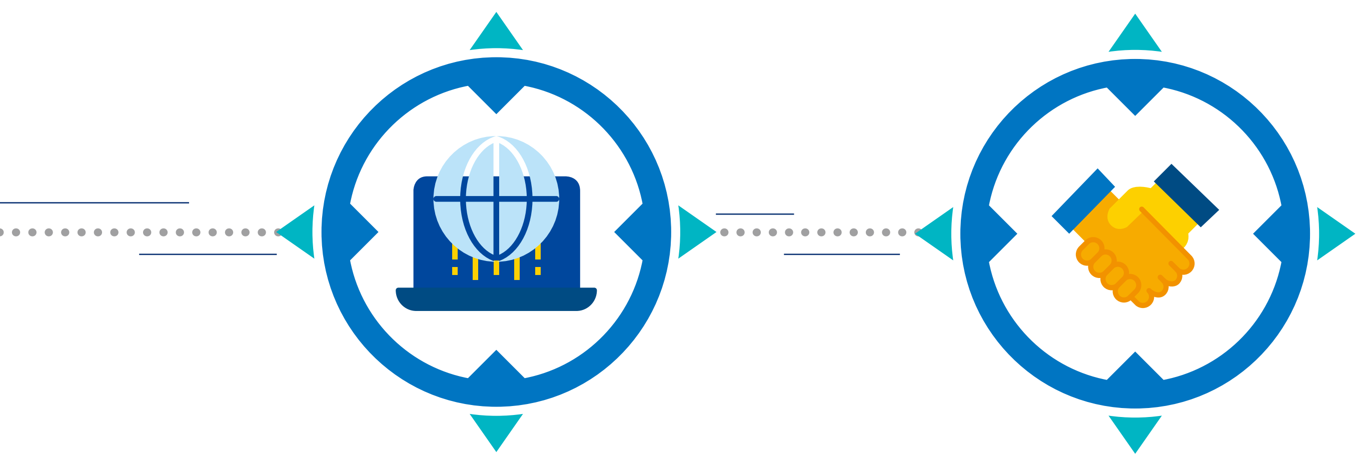
As a diversified high technology company, devoted to:

- focus on R&D and provide different solutions to meet diverse customer demands;
- strengthen our R&D capabilities through global investments

  and ongoing expansion in our R&D teams; and
- become leading high technology enterprise in the various high-growth market segments.

As a listed company, devoted to:

- create share price/value appreciation of the Company for long-term; and
- 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 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. Na Qinglin
Mr. Huang Bin
Mr. Ong Chor Wei
Mr. Zhao Wei

Corporate Governance Committee

Mr. Na Qinglin
(Chairman of the Corporate Governance Committee)
Mr. Zhou Yu

Authorized Representatives

Mr. Na Qinglin
Mr. Tse Kam Fai *(FCS, FCIS)*
Mr. Wang Kevin Haigeng
(Alternative Authorized Representative)

Company Secretary

Mr. Tse Kam Fai *(FCS, FCIS)*

Investor Relations Contact

Mr. Wang Kevin Haigeng
Vice President of Finance and Business Development
Tel: (852) 2307-4100
Fax: (852) 2307-4300
E-mail: ir@o-netcom.com

Legal Advisors to the Company

As to Hong Kong law:
Deacons

As to Chinese law:
Global Law Office

As to Cayman Islands law:
Conyers Dill & Pearman

As to U.S. law:
Shearman & Sterling

Auditor
PricewaterhouseCoopers

Property Valuer
Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Valuer
ValQuest Advisory Group Limited

Principal Bankers

China
Bank of China
China Merchant Bank
Bank of Hangzhou
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
801,390,240 shares (as at this report approval date)

Board Lot Size
1,000 shares

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

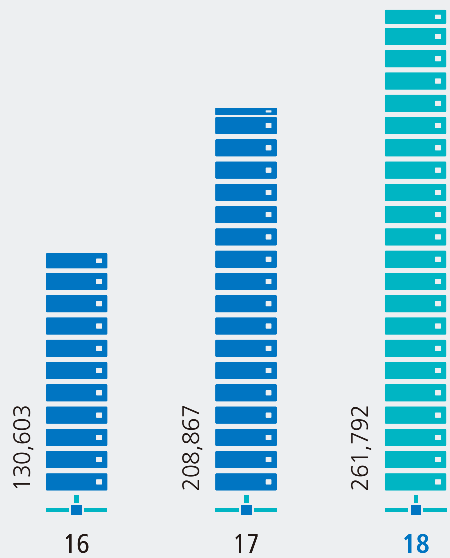
Hong Kong Share Registrar
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Financial Highlights

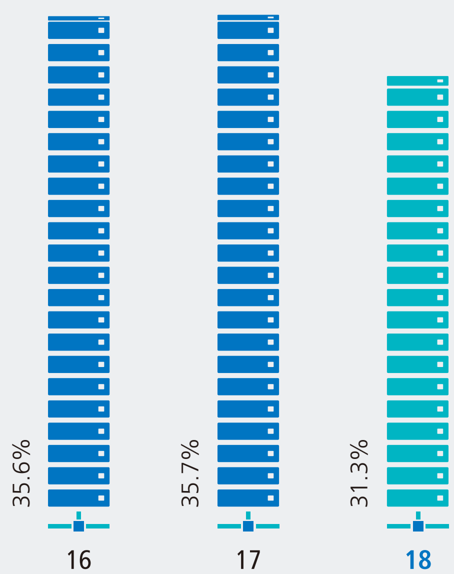
Revenue
HKD
2,516.4
million

Revenue
(HKD'000)

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

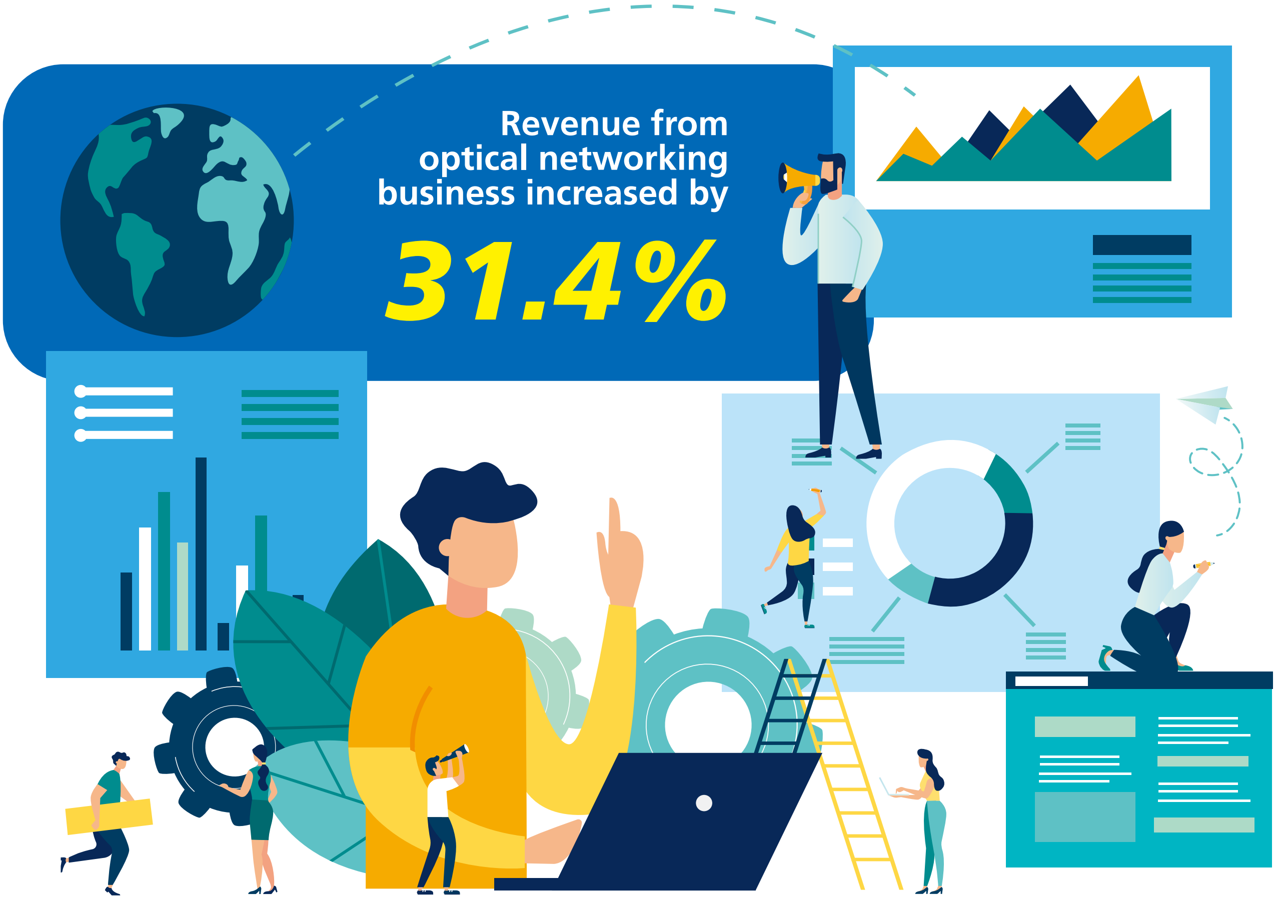


Gross Profit Margin

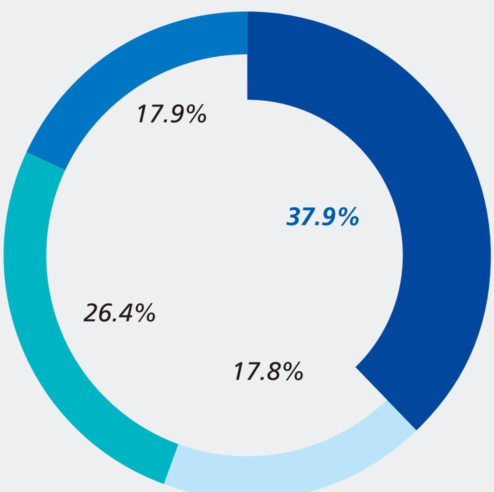


Profit* Margin

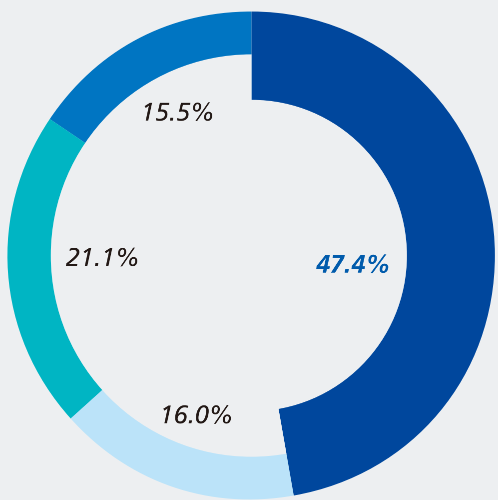
* Profit means profit attributable to equity holders of the Company



2018 Revenue by Geographical Segment



2017 Revenue by Geographical Segment

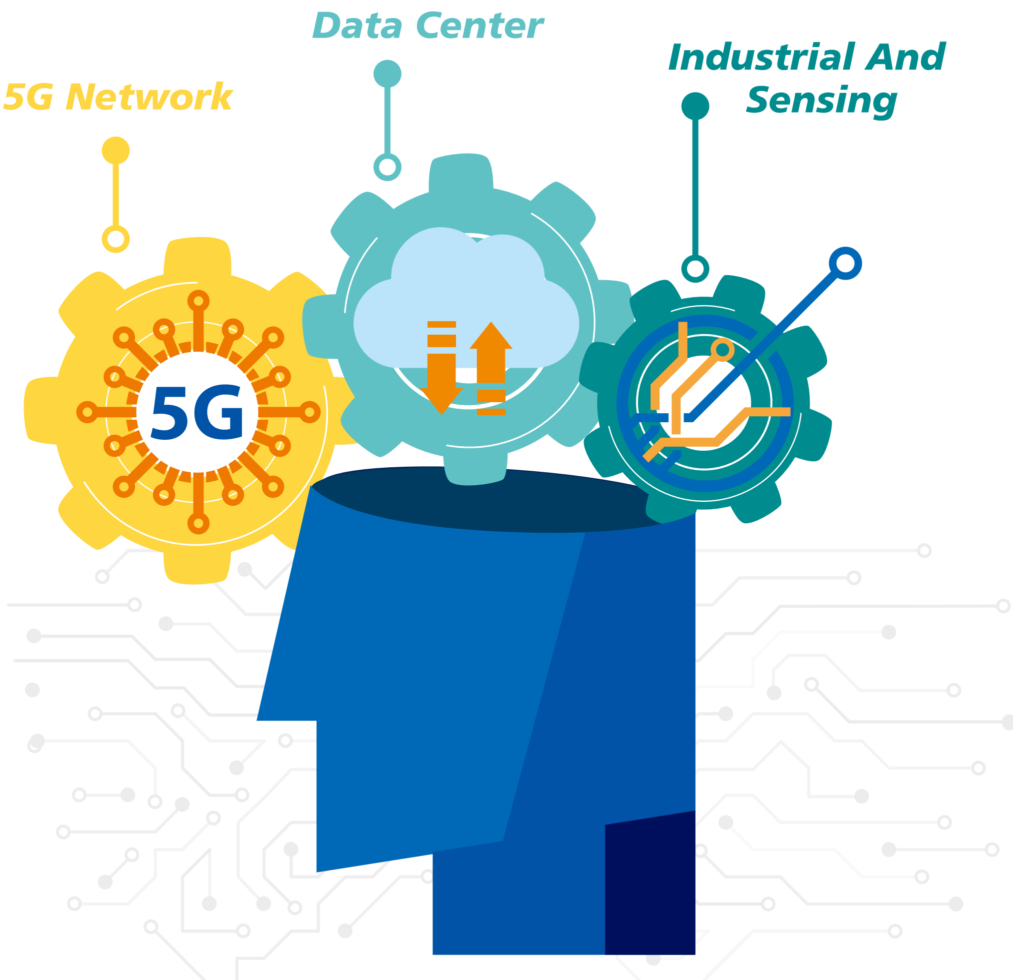


● PRC ● North America ● Europe ● Asia (ex PRC)

Impressive Growth with Diversified Revenue Contributions

O-Net's success in optical networking components has long been driven by its dedication to technological advancement and development of new products. Beyond optical communications, we see tremendous opportunity to leverage our core optical technology to enter new arenas such as LiDAR, Machine Vision, and Industrial Lasers. As major telecommunication operators begin to roll out 5G in the coming years and demand further rises from the DCI market, we expect to see healthy growth in our core optical networking business. The Group will continue to capture growing opportunities, expand its market share, and achieve an industry-leading level of yield across fast-growing markets, leading to sustainable growth and the delivery of favorable returns to its shareholders.

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

Multi-year high-growth cycle

- Eighteen 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

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

- Leveraged on leading automation technologies and new capacities to tap the consumer market with outstanding returns and growth attributable to the strong demand from a leading American E-Cigarette 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

Chairman's Statement

Overall Performance

Resilience and execution played a pivotal role towards O-Net's success in 2018. Due to the delay of global 5G related capital expenditures, the first half of the year started off with light sales from our core Optical Networking Business, leading to a heavier reliance on our other Smart Manufacturing Applications Business (which is renamed Industrial and Sensing Businesses). As we entered the second half of 2018, sales of optical networking components saw a vigorous recovery as 5G demand began to gain traction in Japan and Korea. Meanwhile our non-optical networking business experienced a reverse of this dynamic. With the deceleration of the smart phone replacement cycle, our Consumer Electronics business segment saw declining sales in the second half of 2018, partially offsetting gains enjoyed by the core business. Despite these challenging business dynamics, we are pleased to have achieved consolidated revenue of HKD2,516.4 million and non-GAAP net profit* of HKD325.1 million, an increase of 24% and 33% respectively.

Business Review

Data is growing at a faster rate than ever before, and the scale of optical communication will need to accelerate in order to satisfy the global demand driven by this trend. With both the number of internet users and the amount of data created per user increasing simultaneously, we expect optical communication to naturally benefit from the subsequent sheer increase in the network volume in the coming years. As we are firmly in the mobile communication age, the ability to upgrade the global telecommunications infrastructure requires numerous stake holders to work in concert. The scale and complexity of this undertaking lends itself to long cycles of heavy capital investments that require long periods of planning and execution. In 2019, we find ourselves at the edge of the next great advancement cycle, one that may last nearly a decade and require as much as a trillion US dollars of investment to complete. The new 5G is unlike any other previous investment cycle due to the magnitude of technological change required and the volume of information it will transmit. Starting with the 2020 Tokyo Olympics, companies will have an opportunity to show case how this technology can enable untold applications including Augmented Reality, Autonomous Vehicles, and the Internet of Things. O-Net finds itself squarely in the center of this next wave of infrastructure improvement where it will continue to provide high quality reliable products in a lucrative business.

Just as quickly as market conditions in optical networking improved in the second half of 2018, they worsened for our Consumer Electronics business division. As many smart phone makers are waiting for the global roll out of 5G networks, new phone designs have been postponed until 2020, leading to a slower than anticipated smart phone replacement cycle in 2018. As a result, we experienced a sharp drop of demand for both cosmetic coatings and functional coatings from mobile phone manufacturers. Revenue from our Consumer Electronics Business therefore declined by 52% with revenue of HKD96.7 million for 2018. A significant reorganization and cost-reduction program was implemented during 2018 to address the lower business scale in this segment as we do not anticipate to see a quick turnaround in 2019.

Other industrial and sensing businesses divisions continued to perform well, led by the LiDAR division, which saw revenue increase by 53% to HKD23.6 million in 2018. This outstanding performance was followed by the Electronic Cigarette division, which grew by 51% to achieve revenue of HKD96.2 million, the Machine Vision division, which grew by 36% to reach revenue of HKD43.8 million, and lastly the Industrial Laser division, which grew by 24% with revenue of HKD152.5 million.

Results Highlights

The Group has performed well during the latest financial year owing to the hard work and commitment demonstrated by the entire O-Net work force. As at FY2018, the Group recorded revenue of HKD2,516.4 million, an increase of 24% over the preceding year. In addition to revenue growth, net profit attributable to equity holders grew 25% achieving HKD261.8 million for 2018.

The Board recommended to the shareholders of the Company a final dividend of HKD0.02 per ordinary share for the year ended 31 December 2018 at the upcoming annual general meeting of the Company.

* Profit attributable to equity holders of the Company

Prospects

O-Net's success in optical networking components has long been driven by its dedication to technological advancement and development of new products. With the successful completion of our previously announced acquisition of 3SP Technologies, we expect to further develop our product lines to meet growing demand in optical communications. 3SP Technologies' proprietary Indium Phosphide ("InP") and Gallium Arsenide ("GaAs") based laser chips will enable O-Net to remain a leader in the lucrative optical networking industry for years to come.

Beyond optical communications, we see tremendous opportunity to leverage our core optical technology into new arenas such as LiDAR, Machine Vision, and Industrial Lasers. With a strong pedigree of optical science, our research and development team will continue to push the envelope when it comes to developing and innovating the next generation of optical communications equipment. Recently, our patented LiDAR technology has achieved yet another breakthrough in the 1550 nanometer wavelength space. We expect to see meaningful shipments of our newest LiDAR technology, KALA, by 2020, and it has already received qualification for commercial use by numerous auto manufacturers and Silicon Valley technology companies.

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, 19 March 2019

Management Discussion and Analysis

The Group has continued to improve its position as a leader in the provision of high-technology products and optical networking components. In addition to maintaining its market leadership in key passive optical components such as WDM and EDFA, the Group has also made significant strides in active optical components such as 100GbE TOSA and ROSA products. As major telecommunication operators begin to roll out 5G in the coming years, we expect to see healthy growth in our core business. Outside of the core optical networking business segment, industrial and sensing products continued to gain traction in the market. The Group's successful acquisition of 3SP Technologies ("3SP") has bolstered its product portfolio by improving its capabilities in Light Detection And Ranging ("LiDAR") and the fabrication of Industrial Lasers. The strategy to diversify its product portfolio, which began in 2012, has proven useful during cyclically low phases of the telecommunications investment cycle. The first half of 2018 appeared to have represented the trough of the 4G investment cycle while the second half of 2018 may have been the beginning of the 5G investment cycle.

Apart from the optical networking market for telecommunications applications, its traditional core business, the Group also continues 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 multikilowatt fiber laser industry; (iv) LiDAR for emerging ADAS application; and (v) coating solutions for the consumer electronics products.

Industry and Business Review

Demand for optical networking components appears to have bottomed in the first half of 2018, with a notable uptick in the second half of the year. Major telecommunication operators have indicated that they will begin significant investments in 5G infrastructure as early as 2019, with Japan and Korea leading the way. Unlike previous iterations, this investment cycle is expected to start in Asia, with signs that major Chinese operators may roll out deployments as early as 2020. North American operators are targeting 5G deployment in 2021 with Europe following in 2022. Unlike the 4G cycle, the 5G cycle is likely to happen more gradually and over a longer period of time, which may improve the Group's visibility into future demand. For example, while China may deploy 5G as early as 2020, this will likely only be available in tier 1 cities, while tier 2 and 3 cities may not have 5G for many years to come. This progressive rollout of 5G will smooth out demand and may reduce the Group's earnings volatility. Due to the hardware requirements of 5G, infrastructure density will likely increase, creating opportunities for optical component manufacturers to boast volumes.

Optical Networking Business

In FY2018, the Group's optical components business has duly seized opportunities resulting from both the telecommunications and data-communications sectors, and generated revenue of HKD2,103.6 million, up 31.4% year-on-year, far outstripping the pace of growth in the global optical market. Optical networking remains the Group's core business, representing 83.6% of total revenue.

Industrial and Sensing Businesses

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

Industry 4.0 initiative ushered in 2015, has brought immense opportunities to the automation and sensing sectors in China. For its part, in FY2015, the Group rolled out its first machine vision system, and has continued to invest and expand its product portfolio to cater to strong demand. Consequently, sales of this product achieved impressive growth of 35.6% year-on-year, contributing HKD43.8 million in revenue to the industrial applications businesses in FY2018, thus reaffirming its growth driver status.

Automation Solutions Business for E-cigarettes

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 and overseas, its E-cigarette business recorded a strong year-on-year growth of 51.3% and generated revenue of HKD96.2 million for the year.

Industrial Laser Business

Since 2015, the Group has successfully tapped the industrial laser industry through the acquisition of ITF Technologies Inc. ("ITF"), a leading supplier of ultra-reliable fiber-optic components, such as Fiber Bragg Grating (FBG) and high-power fused components and modules for fiber laser systems, which has addressed several applications for industrial fiber lasers across the different power and wavelength spectra, 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 expand 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 HKD152.5 million in revenue from the industrial laser business in FY2018 which represented a growth rate of 23.5% in sales over the prior year.

LiDAR Business

ADAS is 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 less than 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. 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 HKD23.6 million for the year, up 53.2% over the preceding year.

Consumer Electronics Business

Although consumer electronics are expected to grow over the next several years, the rate of growth slowed in 2018 with the delay of new smart phone models entering the market. Major phone makers are waiting for investments in 5G infrastructure to release 5G compatible phone models in 2019 and 2020. We expect the smart phone supply chain to bottom out in the first half of 2019 as it continues a trend of declining sales which began in the first half of 2018. For the fiscal year ended 2018, consumer electronics revenue declined 51.5% generating HKD96.7 million.

Financial Review

Revenue

For FY2018, the Group reported revenue of HKD2,516.4 million, representing an increase of HKD481.3 million, or 23.6%, compared with that of HKD2,035.1 million in FY2017. The increase in revenue in FY2018 was primarily attributable to the growth in revenue of optical networking business and industrial and sensing businesses.

Optical Networking Business

The optical networking business recorded revenue of HKD2,103.6 million in FY2018, representing an increase of HKD502.6 million, or 31.4% as compared with that of HKD1,601.0 million in FY2017. The increase was primarily attributable to the growing demand for the optical networking products in both passive and active components.

Industrial and Sensing Businesses

The industrial and sensing businesses recorded revenue of HKD412.8 million in FY2018, representing an decrease of HKD21.3 million, or 4.9% as compared with that of HKD434.1 million in FY2017, attributable to the net effect of (i) sharp decrease of revenue in consumer electronics business; and (ii) significant growth of revenue in industrial and sensing businesses, except for consumer electronics business.

Machine Vision Business

Revenue of HKD43.8 million was recorded in FY2018, representing an increase of HKD11.5 million, or 35.6% as compared with that of HKD32.3 million in FY2017. The rise in revenue in FY2018 was primarily attributable to bolstered sale efforts by the Group.

Automation Solutions Business for E-cigarettes

Revenue of HKD96.2 million was recorded in FY2018, representing an increase of HKD32.6 million, or 51.3% as compared with that of HKD63.6 million in FY2017. The increase in revenue in FY2018 was primarily attributable to the greater demand for heating coils from the major E-cigarette makers.

Industrial Laser Business

The Group's industrial laser business was contributed by supplying optical components for the industrial laser application, such as fiber lasers. In FY2018, revenue from the industrial laser business of HKD152.5 million was recorded, representing an increase of HKD29.0 million, or 23.5% as compared with that of HKD123.5 million in FY2017. The revenue rise was primarily due to the components sales for kilowatt-class fiber lasers, as well as the rapid expansion in sales of higher-value added high-power laser modules-laser engines and laser combiners.

LiDAR Business

Revenue of HKD23.6 million was recorded in FY2018, representing an increase of HKD8.2 million, or 53.2% as compared with that of HKD15.4 million in FY2017 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 HKD96.7 million was recorded in FY2018, representing a decrease of HKD102.6 million, or 51.5% as compared with that of HKD199.3 million in FY2017 which was primary due to the sharp decrease demand of coating of smartphone manufacturers in China.

Gross Profit and Gross Profit Margin

The gross profit in FY2018 was HKD788.0 million, representing an increase of HKD61.5 million, or 8.5%, from the gross profit of HKD726.5 million in FY2017. The higher gross profit was primarily due to the rise in revenue from optical networking businesses and smart manufacturing applications businesses of the Group.

As a percentage of total revenue, gross profit margin decreased to 31.3% in FY2018 as compared with 35.7% in FY2017. The decrease of gross profit margin was the net effect of (i) the gross profit margin of optical networking business decreased to 30.8% in FY2018 as compared with 32.9% in FY2017; (ii) sharp decrease of revenue in consumer electronics business.

Other Gains

Other gains in FY2018 increased by HKD33.8 million to HKD64.2 million, from HKD30.4 million in FY2017, which was primarily due to the net effects of (i) the impact of the stronger USD (for entities within the Group using RMB as functional currency) on the sales transactions and balances denominated in USD in FY2018, the foreign exchange gain was HKD21.4 million as compared with the foreign exchange loss of HKD28.6 million in FY2017; and (ii) the decrease in government grants by HKD7.8 million, from HKD48.8 million in FY2017 to HKD41.0 million in FY2018.

Management Discussion and Analysis

Selling and Marketing Costs

Selling and marketing ("S&M") costs of HKD79.0 million in FY2018 rose by HKD2.8 million, or 3.7%, compared with HKD76.2 million in FY2017. The increase in selling and marketing costs in FY2018 was primarily attributable to the net effects of (i) the increase of the salary costs; (ii) lower freight charges; and (iii) the increase of share options/share awards expenses. However, selling and marketing costs as a percentage of revenue decreased to 3.1% in FY2018 as compared with 3.7% FY2017. The reason was mainly attributable to the higher revenue outweighing the increase in the overall selling and marketing costs.

Salary costs in FY2018 was HKD42.0 million, an increase of HKD11.4 million, or 37.3% compared with HKD30.6 million in FY2017. 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 and sensing businesses; and (ii) an increase in salaries.

No freight charges was included as S&M costs in FY2018 as compared with HKD11.1 million in FY2017 due to the classification change to cost of sales with effective of Hong Kong Financial Reporting Standards 15.

Share options/share awards expenses in FY2018 was HKD4.8 million, representing an increase of HKD2.5 million, compared with HKD2.3 million in FY2017. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in FY2018 and FY2017.

Research and Development Expenses

Research and development ("R&D") expenses in FY2018 were HKD247.6 million, HKD16.8 million or 7.3% higher compared with HKD230.8 million in FY2017. The rise in R&D expenses was mainly due to the net effect of (i) the increase in salary costs for the R&D engineers; (ii) the increase in share options/share awards expenses; and (iii) the decrease in raw materials consumed in R&D projects. However, R&D expenses as a percentage of revenues decreased to 9.8% in FY2018 as compared with 11.3% in FY2017. This was mainly due to the increase in revenue outweighing the increase in R&D expenses.

The salary costs for R&D engineers was HKD131.1 million, representing an increase of HKD18.5 million, or 16.4% as compared with HKD112.6 million in FY2017. The increase was primarily attributable to the combined effect of (i) the increase in hiring of R&D engineers; and (ii) higher salaries.

Share options/share awards expenses in FY2018 was HKD20.7 million, representing an increase of HKD10.7 million, or 107.0% as compared with HKD10.0 million in FY2017. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in FY2018 and FY2017.

Raw materials consumed in the R&D projects in FY2018 was HKD69.7 million, representing a decrease of HKD9.9 million, or 12.4% as compared with HKD79.6 million in FY2017. The decrease was primarily attributable to the decrease of expenses for purchasing raw materials, especially the completion of research stage of 10 X 10 TOSA & ROSA and 100GbE QSFP28 CWDM4 products.

Administrative Expenses

Administrative expenses in FY2018 were HKD215.6 million, HKD38.5 million or 21.7% higher as compared with HKD177.1 million in FY2017. The increase of administrative expenses in FY2018 was primarily attributable to (i) the increase of the salary costs; (ii) the increase of share options/share awards expenses; and (iii) increase in overall administrative expenses. However, administrative expenses as a percentage of revenue decreased to 8.6% in FY2018 as compared with 8.7% in FY2017. The reason was mainly attributable to the higher revenue outweighing the increase in the overall administrative expenses.

For FY2018, the salary costs was HKD125.5 million, representing an increase of HKD24.0 million, or 23.6% as compared with HKD101.5 million for FY2017. The increase was primarily attributable to an increment in salaries and hiring of new staff.

Share options/share awards expenses in FY2018 was HKD7.6 million, representing an increase of HKD3.1 million, compared with HKD4.5 million in FY2017. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in FY2018 and FY2017.

The other administrative expenses rose in line with growth of the Group such as repair and maintenance, motor vehicle expenses, utilities and rental expenses.

Finance Income/Expenses

Finance income in FY2018 amounted to HKD6.2 million, representing an increase of HKD4.1 million, compared with HKD2.1 million in FY2017. The increase in finance income was primarily due to the net effect of (i) the impact of the stronger USD (for entities within the Group using RMB as functional currency) on net effect of cash and bank balances and bank borrowings, the foreign exchange gain was HKD2.3 million in FY2018 as compared with foreign exchange loss of HKD3.1 million in FY2017; and (ii) the decrease in interest income of HKD1.3 million.

Finance expenses in FY2018 amounted to HKD32.4 million, representing an increase of HKD6.4 million, or 24.6% as compared with HKD26.0 million in FY2017. The increase in finance expenses was primarily due to the increase in interest rate of bank borrowings due to decrease of pledged bank deposits for bank borrowings.

Share of Profit of Associates

Share of profit of associates was HKD1.1 million for FY2018, which represents share of results of two associates accounted for using equity method.

The management has reassessed the Company's significant influence over an investee taken account into its successful listing in Taiwan Stock Exchange, there was a change in classification of fair value through profit or loss to investment in an associate in first half of FY2018. In addition, there was a new acquisition of another associate in October 2018.

Share of Loss of a Joint Venture

Share of loss of a joint venture was HKD2.2 million for FY2018, which represents an increase of HKD2.2 million compared with HKD0.003 million for FY2017. In addition to an increase in R&D expenses of a joint venture for new R&D project, only 5-month share of result were recorded for the Group's share of loss of a joint venture for FY2017 due to set up of a joint venture in August 2017.

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 FY2018 amounted to HKD23.9 million, representing a decrease of HKD19.2 million or 44.5% from the income tax expenses of HKD43.1 million in FY2017. The drop in income tax expenses was primarily due to the combined effect of (i) the increase of deductible R&D expenses in FY2018; and (ii) the percentage of R&D costs eligible for additional deduction in the PRC increased in FY2018.

Non-GAAP Financial Performance

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	
	2018	2017
	HKD'000	HKD'000
Adjustment to Measure Non-GAAP Gross Profit		
Gross Profit	**787,992**	726,473
Adjustment Related to Cost of Sales		
Provision/(write-back) for inventory write-down	**4,547**	(323)
Non-GAAP Gross Profit	**792,539**	726,150
Adjustment to Measure Non-GAAP Net Profit*		
Net Profit*	**261,792**	208,867
Adjustment Related to Cost of Sales		
Provision/(write-back) for inventory write-down	**4,547**	(323)
Adjustments to Measure to Operating expenses		
Share options and share awards granted to directors and employees	**42,554**	22,721
Amortization of intangible assets	**13,438**	13,835
Adjustments to Other Gains – net		
Fair value loss/(gain) on derivative financial instruments	**2,723**	(422)
Loss on disposal of a subsidiary	**–**	59
Non-GAAP Net Profit*	**325,054**	244,737
Non-GAAP EPS		
– Basic	**0.43**	0.33
– Diluted	**0.43**	0.31
Gross Profit Margin	**31.3%**	35.7%
Non-GAAP Gross Profit Margin	**31.5%**	35.7%
Net Profit* Margin	**10.4%**	10.3%
Non-GAAP Net Profit* Margin	**12.9%**	12.0%

* Profit attributable to Equity Holders of the Company

Non-GAAP net profit for FY2018 was HKD325.1 million, or HKD0.43 per share, compared with non-GAAP net profit of HKD244.7 million, or HKD0.33 per share, reported for FY2017. Non-GAAP results for FY2018 exclude HKD4.5 million in provision for inventory writedown, HKD42.6 million in share options and share awards granted to directors and employees, HKD13.4 million in amortization of intangible assets and HKD2.7 million in fair value loss on derivative financial instruments. Non-GAAP results for FY2017 exclude HKD0.3 million in write-back for inventory writedown, 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.

Prospects

Going forward, the Group is confident that it will make further advances in most of its businesses. In respect of the optical networking business, it will introduce the next generation of innovative 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 share during the past year. Going forward, the Group remains highly optimistic with the imminent rollout of 5G communications. Over the next decade, 5G is expected to penetrate most major cellular markets, providing a steady stream of demand for the Group's core products. Unlike 2018, which witnessed a bottoming of the global telecommunications investment cycle, 2019 is expected to be the start of a much larger communications infrastructure upgrade and a longer period of capital expenditure. This tail wind will enable the Group to advance into new technologies and improve its product line to better meet customers' demands.

Industrial and Sensing Businesses

The Group's industrial and sensing businesses, which accounted for 16.4% of total revenue in 2018, has continued to outperform in most sectors. Chief among these business divisions has been LiDAR, which continues to exceed the Group's expectations, as it expands to new markets and new geographies. 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.

The Group is committed to continue the development of next-generation laser source modules for 1550 nm 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.

The revolution that is taking place in the manufacturing and production industry brought upon by Industry 4.0 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 automation 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 looks to build on its success by providing automation solutions, as well as offering machine vision systems and sensing products. The development of such products began in 2013, with products launched in 2015, and continuing to expand through a new series of products to tap the opportunities generated by the trend towards Industry 4.0 in order to further penetrate the intelligent, digitalized 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 reach 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.

The Group has taken adjustment of staff on business units and cost reduction program in response to the decline of its coating for mobile phone business, i.e. Consumer Electronics division. The operation scale has been reduced to a minimum level in order to avoid similar operation loss as in 2018. The Group believes the division is in a much better situation in terms of operation flexibility and efficiency, which should enable it to address future sharp cyclical downturn of the industry.

To better reflect this business unit's nature, Smart Manufacturing Applications will be renamed as Industrial and Sensing Division.

Group's Liability, Financial Resources and Capital Structure

As at 31 December 2018, the Company's issued share capital was approximately HKD8.0 million divided into 802,034,240 shares, including 1,190,000 shares pending for cancellation, of HKD0.01 each, and the total equity of the Group was approximately HKD2,247.5 million (31 December 2017: HKD2,033.1 million). The Group had current assets of HKD1,830.4 million and current liabilities of HKD948.3 million and the current ratio was 1.93 times as at 31 December 2018 (31 December 2017: 1.69 times). The Group's gearing ratio (calculated as total borrowings over total equity) was 21.7% at 31 December 2018 (31 December 2017: 32.2%).

As at 31 December 2018, the Group had cash and cash equivalents of approximately HKD341.6 million (31 December 2017: HKD320.7 million). The 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, 2018, the Group had bank deposits of HKD65.7 million (31 December 2017: HKD84.9 million) pledged as guarantee for payables to suppliers for purchasing of goods and for bank borrowings.

Capital Commitments and Contingent Liabilities

As at 31 December 2018, the Group had contractual capital commitments of approximately HKD4.2 million (31 December 2017: HKD15.9 million). As of 31 December 2018, 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 2018, 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 HKD179.5 million (31 December 2017: HKD240.9 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 faces foreign exchange and conversion risks since costs denominated in RMB exceed the sales denominated in RMB. Fluctuations in the exchange rate between the RMB and the US dollar may adversely affect our business, financial condition and results of operations.

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

Employee Benefits

As at 31 December 2018, the Group had a total of 5,196 employees (31 December 2017: 4,760). The Group's staff costs (including Directors' fees) amounted to HKD714.4 million (31 December 2017: HKD524.3 million). The remuneration policy of the Group is reviewed annually by the Remuneration Committee of the Company and is in line with the prevailing market practice.

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

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

A share option scheme, which was adopted before the IPO (the "Pre-IPO Share Option Scheme"), and another share option scheme, which was adopted by the Company for issuance of share options after the IPO (the "Post-IPO Share Option Scheme"), are both equity-settled, share-based compensation schemes, under which the entity receives the services from eligible participants as consideration for equity instruments (options). Eligible participants include any Director, employee, consultant, professional, customer, supplier, agent, partner, adviser or contractor to the Company, or a company in which the Company holds an interest or a subsidiary of such company.

Management Discussion and Analysis

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

The Post-IPO Share Option Scheme was adopted on 9 April 2010 to retain staff members who have made contributions to the success of the Group. For 2018, no option was granted (2017: Nil).

The Company adopted a restricted share award scheme ("Share Award Scheme") on 9 May 2014 as an incentive to recognize the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. Restricted shares under the Share Award Scheme will be comprised of shares of the Company subscribed for or purchased by the trustee out of cash arranged by the Company. No restricted shares were purchased by the trustee from the market and no new share was issued by the Company for the purpose of the Share Award Scheme for 2018. For 2018, 16,230,000 shares were granted to employees of the Group (2017: 3,300,000).

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 resolved to recommend to the shareholders of the Company a final dividend of HKD0.02 (2017: Nil) per share for the year ended 31 December 2018 at the forthcoming annual general meeting of the Company to be held on Friday, 31 May 2019 ("2019 AGM") to the Shareholders whose names appear on the register of members of the Company on Thursday, 6 June 2019, and such dividend will be made on Friday, 21 June 2019. The final dividend will amount to approximately HKD16,027,000 (2017: Nil).

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

As at 31 December 2018, the Group maintained sufficient funds for the capital investment and operations for the coming year.

Material Event Since the end of the Financial Year

On 21 April 2017, O-Net Communications Holdings Limited ("O-Net BVI"), a wholly-owned subsidiary of the Company, entered into the formal sale and purchase agreement with Advance Photonics Investments Limited ("API") in relation to the acquisition by O-Net BVI of the 100% equity interest of 3SP.

On 19 March 2019, the O-Net BVI has entered into a supplementary agreement with API and its sole shareholder to acquire 100% equity interest of API, which holds 100% equity interest of 3SP. Consequently, the acquisition of 3SP completed on the same day.

Save as those mentioned above, there has been no other material event since the end of the financial year.

Biographical Details of Directors and Senior Management

Executive Director

Mr. Na Qinglin

Mr. Na, aged 52, 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 and the Corporate Governance Committee and a member of 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 21 May 2008 and 30 May 2008 respectively. Prior to joining the Company, Mr. Na co-founded and became the co-managing partner of Mandarin Venture Partners Limited in 2000. Previous to that, Mr. Na worked at the Hong Kong office of Salomon Smith Barney between 1997 and 2000. He also worked at the New York office of Salomon Brothers from 1995 to 1997. During his tenure at Salomon Brothers Inc., Mr. Na specialized in corporate finance for the Asia Pacific region. Mr. Na 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 51, 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 Shenzhen Kaifa Technology (Chengdu) Co., Ltd and Chongqing Kaifa Technology Co., Ltd.. He has held these positions since April 2016 and July 2017 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 58, 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 52, 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 or director of the board 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 52, 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 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 49, 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 28 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 54, 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 26 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 65, 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 56, 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 61, 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 36 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 56, 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 76, is the Chief Scientist of the Group. He is responsible for developing Group's next-generation highspeed 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 50, 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 57, 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 25 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 49, 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. Tse Kam Fai

Mr. Tse, aged 55, is the company secretary of the Company. He is a fellow member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. He is also a member of The Hong Kong Institute of Directors. Mr. Tse is currently the company secretary of each of Target Insurance (Holdings) Limited, SH Group (Holdings) Limited and Synertone Communication Corporation, companies listed on the Main Board of the Stock Exchange, and each of Rui Feng Group Holdings Limited and Heng Xin China Holdings Limited, both companies are listed on the GEM of the Stock Exchange. He is also an executive director of a local professional firm providing regulatory compliance, corporate governance and corporate secretarial services to listed and unlisted corporations. Mr. Tse has more than 25 years' experience in handling listed company secretarial and compliance related matters.

Biographical Details of Directors and Senior Management

Mr. Wang Kevin Haigeng

Mr. Wang, aged 35, is the Vice President of Finance and Business Development of the Company. He is responsible for the financial management, investor relations, and corporate finance functions of the Group.

Mr. Wang has over a decade of experience in financial management, asset management, equity research, and investor relations. Prior to joining the Group, he served as chief financial officer of YZ Corporation, a social media company, and prior to that, he was a director of GVC Investment Corporation, an investment fund. Other professional experiences include securities analysis at Citi Global Capital Markets and investor relations at Suntech Power Holdings.

Mr. Wang holds a Master of Business Administration degree in finance from HEC Paris and a Bachelor of Arts degree in political science from the University of California at Santa Barbara.

Dr. Shen Fei

Dr. Shen, aged 39, 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 16 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 60, 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 29 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 59, 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 29 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 the Environmental, Social and Governance ("ESG") Report (the "Report") for the year ended 31 December 2018. This Report is prepared in accordance with the "comply or explain" 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 Report covers the Group's factory complex operations in Shenzhen Pingshan, People's Republic of China ("PRC") (the "Reporting Scope") from 1 January 2018 to 31 December 2018 (the "Reporting Period"), unless otherwise specified. Our office in Hong Kong continued to have insignificant and immaterial impact to the Group's operations economically, socially and environmentally, therefore remained excluded from the Reporting Scope.

The purpose of this Report is to communicate the Group's visions, commitments, policies, operating practices, performances and plans relating to social and environmental issues and aspects that are material to the Group's operations. The content of this Report is informed by a materiality survey and endorsed by our Board of Directors (the "Board"). All information published in this Report is compiled by relevant departments based on existing policies or practices, and official documents or reports, as we strive to keep the disclosure of such information accurate, genuine and honest. We are committed to disclosing and updating our ESG performances through ESG reporting annually in a transparent manner.

Our Board of Directors are dedicated to managing all ESG-related matters of the Group. They oversee our ESG strategy, ESG risk identification and management, as well as ESG reporting, among others. Their role and leadership will be further explained and highlighted in the following sections.

We welcome your feedback on this Report and our sustainability performance. Pleases send us your comments via email at ir@o-netcom.com.

About O-Net

Established in 2000, O-Net aspires to become the leader in the global high-technology industry. Having 19 years of solid experience in the provision of optical networking products, the Group has developed itself as a competitive and reliable supplier in the global optical telecommunications and data-communications markets. To further strengthen the Group's leadership in the industry, it embraces a "diversity for growth" strategy and successfully expanded its business to industrial and sensing businesses. The Group is also proactively enhancing its research and development ("R&D") capacity to create more high-technology products and solutions.

Riding on our technological expertise in optical networking, we produce a wide range of products and services that create synergies back with our core businesses – optical networking business and industrial and sensing businesses.

Environmental, Social and Governance Report

Optical Networking Business	Industrial and Sensing Businesses
Our core optical networking business is supported by the telecommunications division and the data-communication division, and together they remain the major driver to our corporate growth. The Group expects great market momentum and abundant business opportunities to be brought by the global rollout of 5G network and the ongoing demand for higher speed cloud services. In response to these global trends and demands, the Group has already proceeded to product qualification and R&D for better technologies.	Industrial and sensing businesses comprise machine vision business, automation solutions business for E-cigarettes, industrial laser business, LiDAR business as well as consumer electronics business. Apart from the consumer electronics business, all industrial and sensing businesses have steady growth in the past years. Market trends and statistics also show immense opportunities for expansion. R&D on technology advancement will continue to play a key role under these businesses.

It is our overall goal and ambition to remain as a leader in the global high-technology industry. Going forward, we will continue to focus on opto-electronic technologies where we have established competitive advantages, and strive to capture new business opportunities to invest in markets that embody great potentials and prospects. We will also maintain our innovative corporate culture to seize demands in the dynamic high-technology market while supporting the success of our customers.

Our mission:

Change the world with technology

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

Our values:

- **Wisdom (智)**
- **Integrity (信)**
- **Benevolence (仁)**
- **Bravery (勇)**
- **Rigour (嚴)**

Sustainability at O-Net

Sustainability is integral to our operations. We expect our people to act in alignment with our sustainability principles and strategies, as we steer our business to the right direction in the right manner.

Sustainability Governance Model

Sustainability at O-Net is built upon a comprehensive and effective governance structure spearheaded by the Board, who is committed to ingraining sustainability into every level of our operations. Our Board oversees all ESG-related matters and manages our ESG performances on a strategic, planning and administrative level. In our operations, the Board's leadership is critical in ensuring our corporate responsibilities are upheld, and that the wellbeing of the environment and our stakeholders are protected and respected.

Sustainability at O-Net is also supported by 3 dedicated committees, whose duties are mainly at the implementation and execution level. The Environmental and Occupational Health and Safety Committee keeps our operations on track with the requirements of our environment and occupational health and safety management system, as well as to maintain the system's relevance and applicability to our business. Risk Assessment and Business Impact Assessment Committee is tasked with the identification, evaluation and formulation of continuity plans for all significant risks foreseen by the Group. Whereas the Social Responsibility Management Committee's role is to implement, monitor and supervise the Group's plans and initiatives relating to social responsibility and occupational health and safety.

Board of Directors

Oversees all ESG-related matters of the Group, including ESG reporting, strategy development, risk management and target setting

Environmental and Occupational Health and Safety Committee

Fulfils the responsibilities as required by the environmental, and occupational health and safety system

Ensures efficiency and applicability of the management systems

Risk Assessment and Business Impact Assessment Committee

Ensures business continuity

Manages risks and enhance business resilience

Social Responsibility Management Committee

Champions the formulation, implementation, promotion and monitoring of strategies, measures and KPIs of social responsibility and occupational health and safety

Employees

Undergo ESG related trainings, adhere to our Code of Conduct, enter into a confidential agreement

Suppliers

Enter into various agreements and Code of Conduct to manage their sustainability performance

Management Policy

Our group-wide management policy takes a broad spectrum of sustainability aspects into account. They attend to quality, social and environmental elements of our operations, and serve as a guideline for employees to follow. Listed on our management manual, the set of management policy is reviewed and revised as needed.

Compliance & Innovation	• Comply with national laws and regulations, amongst other requirements • Provide training to employees to improve their competence • Strengthen awareness towards quality, environment, occupational health and safety ("OHS")
Quality Production & Client Satisfaction	• Control the quality of incoming materials • Select and assess competent suppliers • Strengthen product after-sales service • Handle customer complaints in a timely manner and improve customer satisfaction • Strengthen quality control, execute proper product labelling to ensure quality traceability • Control product quality, ensure "substandard raw materials are not used, substandard components are not passed to next manufacturing stage, and substandard finished products are not shipped out"
People-Oriented & Involvement of All	• Motivate and energise employees by being people-oriented • Enhance the participation of all through recognition, empowerment and improvement of capabilities • Promote innovative solutions and creativity • Strengthen mutual trust and cooperation within the organization
Health and Safety & Prevention Driven	• Formulate safety measures • Comply with safety operating procedures • Enhance occupational health and safety protection measures for employees to minimize risks
Energy Efficiency & Pollution Prevention	• Reinforce "safety first", "pollution prevention" and "quality enhancement" in our operations • Strictly follow environmental standards and customer requirements in production
Continual Improvement & Pursuit of Excellence	• Operate according to ISO 9001, TL 9000, ISO 14001, OHSAS 18001, ISO13485: 2016, US QSR820, ESDS20.20-2014 and ISO 50001 standard requirements • Implement comprehensive quality management • Continuously improve management system, products and services

Sustainable Development Goals

As sustainability becomes an universal concern, corporations shall start addressing sustainability in a greater context. Sustainable Development Goals ("SDG") are adopted by the United Nations in 2015 to provide a shared blueprint of peace and prosperity for people and the planet, now and into the future.

Organisations, big or small, possess vast potentials in supporting these meaningful initiatives within their operations. At O-Net, we strive to consider the values linked with the SDGs to our business and the community, while exploring opportunities to leverage our technological expertise to help reach these development goals. Currently, some of our existing practices are already contributing to these attributes. In the future, we will take a step forward and consider aligning our sustainability strategy, plans and practices with the SDGs to create synergy with the rest of the world.

Stakeholder Engagement

Feedback and opinions from stakeholders encourage the continuous improvement of our sustainability performance. Through active engagements, we gain a better understanding on stakeholders' requirements, expectations and concerns towards our business, which is one of the key factors that shapes our success. Multiple engagement channels are therefore established to proactively engage with our internal and external stakeholders, such that effective communication is facilitated.

We constantly enhance our engagement means to improve communications with our stakeholders. This year, we revamped the design of our corporate website by incorporating more elements and functions. Prospective customers now have access to our extensive product catalogue on our corporate website, where basic product descriptions and photos are available. We also enhanced the transparency of our ESG performance by disclosing our annual carbon footprint, as well as our sustainability initiatives and policies on the website. They are regularly updated under "Corporate Culture" on our website. Please visit http://www.o-netcom.com/for more details.

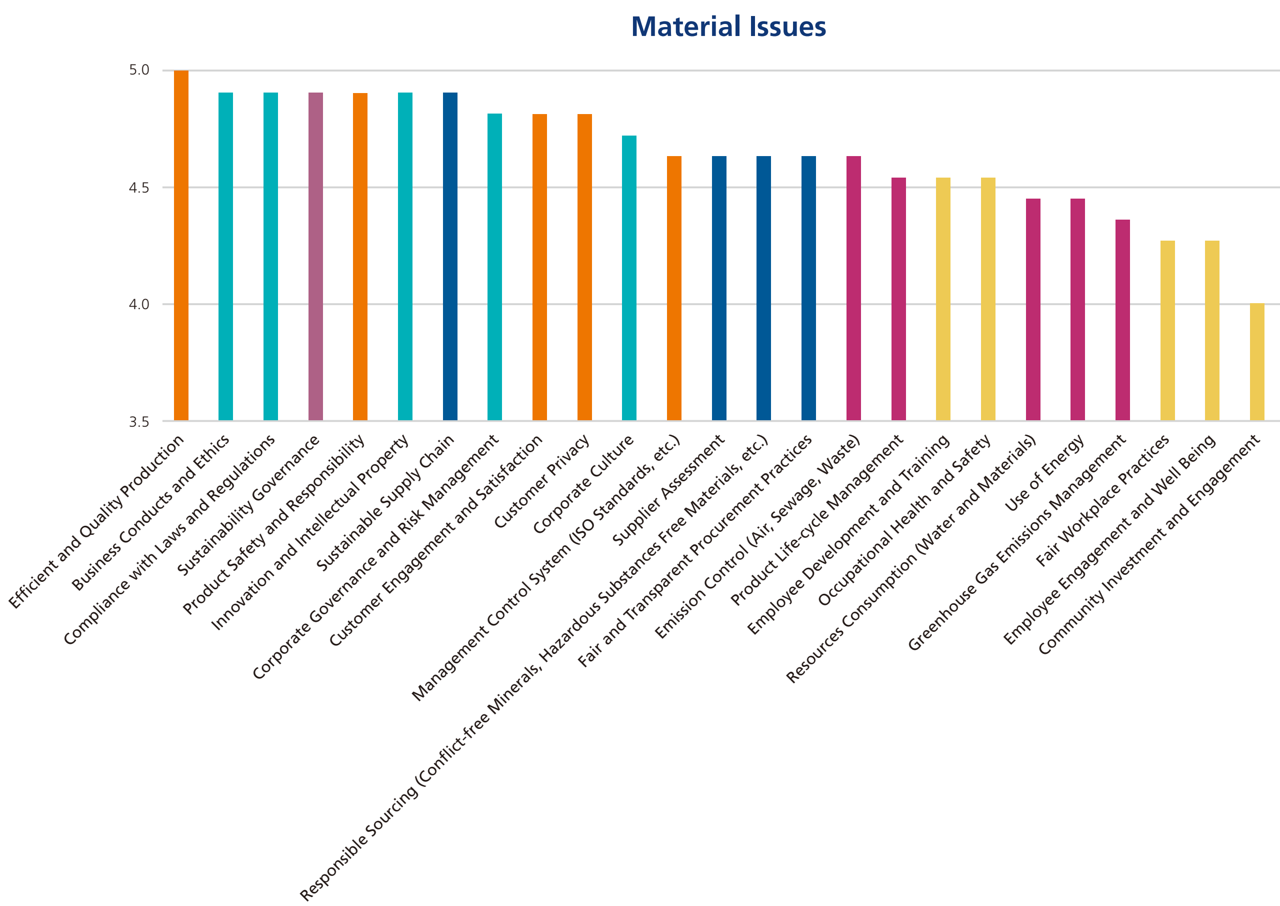
Stakeholders	Concerns	Engagement Channels
Shareholders and investors	Financial performance Strategic plans Operational compliance	General meetings Interim and annual reports Social media platform Corporate website
Employees	Occupational health and safety Benefits and remunerations Development and training Labour rights Working condition and welfare	Career, developmental and safety training Events and gatherings 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 Corporate website
Suppliers	Production safety Business conduct Operational compliance	Tender procedures and meetings Site Visits Regular review and assessment Industry exhibitions
Community	Support to society Environmental impacts Operational compliance Job opportunities	Community activities involvements Recruitment events Corporate website
Government Bodies	Operational compliance Environmental impacts	Visits and inspections

Materiality Assessment

Materiality assessment helps differentiate, hence prioritise, the more important ESG aspects from the less in our sustainability agenda. This year, we conducted our first materiality assessment to determine the relative importance of various ESG issues in our operations. We worked with an external consultancy to perform the assessment to ensure our assessment and evaluation methodology is impartial and unbiased.

The Group's management were invited to provide their feedback through an online survey, where ratings of 25 sustainability-related issues on their importance were required. Within the 3-week period, 11 top management participated in the survey. Relative importance of the issues derived from the assessment are used to inform our ESG reporting. Our future ESG strategic planning may also reference the materiality results to prioritise material issues.

Understanding the importance of this materiality assessment exercise, we may consider expanding the scope or involving other stakeholders groups in the future, to create a more balanced and holistic view.



Environmental, Social and Governance Report

Corporate Management and Governance

Corporate management and governance is the foundation that supports all of our business functions. Not only does it oversees and manages the Group's business conduct, ethics and compliance, it also safeguards our rights and protects our business from risks. By upholding our corporate value of "Strict", we apply rigor in ensuring we are achieving our business vision ethically and sustainably.

Business Conduct and Ethics

"Integrity" and "respect" are the two fundamental business philosophies we persevere. They are evergreen to our operations despite changes in the business environment, our products and our people. We expect everyone from O-Net to share our standards on business conduct and ethics, which does not only adhere with, but exceed regulatory requirements.

Corruption is prohibited within our operations. As affirmed in our Code of Conducts, employees are restricted to receive advantages such as gifts, money or entertainment from our business partners that can potentially influence their professional judgement at work. Our "Conduct Hotline" continues to provide an impartial whistleblowing channel for employees to report suspicious behaviour in a confidential manner. During the Reporting Period, no legal cases relating to corruption, money laundering or misconduct were brought against the Group.

We also uphold the principles of human rights as set out in the United Nations Guiding Principles on Business and Human Rights. The Group outlaws employment of child or forced labour by implementing strict human resources policy to ensure all employees are hired under legal circumstances. Underage employees (16-18 years old) are given special care at the workplace with regards to their work duties and working hours to secure their well-being. Our Group also holds ourselves accountable for the safety, health, education and development of any child labour discovered in our business. As outlined by our "Child Labour Rescue Procedure", our obligations to any child worker discovered in our operations include immediate termination of employment contract, provision of transportation support to go back to their hometown, and one-time education subsidy. During the Reporting Period, we adhered with Law of the People's Republic of China on the Protection of Minors and Provisions on the Prohibition of Using Child Labor.

Compliance with Laws and Regulations

Ensuring compliance is always our priority. We maintain a list of local, regional and national laws and regulations that are relevant to our business, and regularly observe for regulatory changes and updates for timely preparations and responses. Internal evaluation to our compliance is conducted on a yearly basis, which includes assessment on our level of compliance, sufficiency and suitability of control measures, and effectiveness of monitoring measures. In 2018, no alarming risks for non-compliance were reflected in the evaluation.

During the Reporting Period, we identified 7 new regulations relating to social responsibility and environmental protection that are applicable to our business. All newly identified regulations were carefully reviewed to assess if our current operations continue to fulfill additional requirements, and no significant changes were needed.

Aspect	Newly Revised/Identified Regulations
Business Integrity	Interim Provisions on Banning Commercial Bribery
Business Conduct	Anti-Unfair Competition Law of the People's Republic of China
Intellectual Property Right	Patent Law of the People's Republic of China
Privacy Protection	Tort Law of the People's Republic of China
Wage and welfare	Regulations of the Shenzhen Municipality on the Wage Payment to Employees
Labour	Interim Provisions on Labor Dispatch
Environmental Protection	Restriction of Hazardous Substances Directive (EU) 2015/853

Information Security

As a technology pioneer, we work with leading corporations around the world for the most innovative and advanced technologies and products. Safeguarding the information of our Group and our business partners is therefore essential to secure the interests of our Group and every corporation along our value chain. During the Reporting Period, we continued to employ the information steward system SAP to store and organise our consumer information. Numeric codes were also utilised to replace customers' names in production.

The culture of information protection within the Group is robust as we actively engage our employees to promote the proper handling of confidential information. All managerial staff have already entered into a confidential agreement with the Group to protect all business information, including technical information such as product designs and research reports, as well as operational information such as internal documents and customer information, among others, owned by the Group. The confidential agreement was revised during the year to clarify the rights and responsibilities of our employees in this regard. To highlight our emphasis on information security, we have also dedicated a session of orientation training to introduce our standards and practices on confidential information handling. A report and reward mechanism is also in place to encourage employees to report on information security risks in our operation, and provide constructive solutions to mitigate the threat.

In our daily operations, we organise our documents in a systematic manner such that materials with sensitive and confidential information are handled with care. All internal documents are graded on their level of confidentiality according to the document's value and distribution scope, as well as the sensitivity and impact of the information it holds. Handling practices and accessibility of the documents vary with respect to their confidential grading. In general, all confidential materials and documents are securely stored in the Document Control Centre ("DCC") and must go through a procedure of "authorise, register, borrow, return" when issuing or recollecting.

To further protect consumer data and other sensitive information, we adopt the following workplace practices relating the use of computer to minimise the risk of data or information leakage from our operation:

System Safety

- **Require employees to update passwords of their personal computer, mailbox and company system periodically**

Computer Virus

- **Educate employees on internet security risks relating to phishing emails and weblinks**
- **Require all softwares to be installed by IT department**

Data Safety

- **Segregate data storage system to 'personal', 'shared among department' and 'shared among the Group' to facilitate the organisation of information**

Internet Safety

- **Prohibit without prior permission**
  - uploading or downloading materials from external sites
  - modifying personal computer's IP address
  - installing networking devices; connecting external computers to company's network
  - visiting non-work-related sites

External Hard Drive Safety

- **Forbid the use of external hard drive without prior permission**

Risks and Opportunities

Operating in an industry with rapid changes and advancements, we must proactively respond to uncertainties – be them risks that have adverse impacts to our operations, or opportunities that have positive implications to our business – to keep us on track to meet our business objectives and enhance our corporate resilience.

Risk Management

Risk management is an essential tool to manage risks and opportunities of our business. We conduct analysis annually to distinguish and evaluate all internal and external factors, risks and opportunities that have potential impacts to our operations concerning quality, management, occupational health and safety and environment. In this annual practice, all departments in the Group have to identify, evaluate and rate the risks and opportunities specific to their operations with respect to the possibility and impact of the risk if happened. We require departments to devise corresponding responsive actions to medium and high-level risks and opportunities to facilitate management. The evaluation results are used to inform the management for further operational or strategic improvement.

Environmental Risks

As global warming intensifies and our environment continues to degrade, our operations are exposed to environmental risks. This is evidently reflected in our risk analysis conducted during the year, where we identified climatic risk as one of the threats that would potentially cause an impact to our operations in a moderate manner for the first time.

Located in the low-lying area of Shenzhen, our factory complex is susceptible to rain storms and floods. Smog, acid rains and high humidity also affect the atmospheric environment and hence present a challenge to maintain the qualities of our precisely calibrated production stations. To ensure prompt responses to the climatic risks when happened, we have devised emergency plans, formed emergency rescue teams, and assigned specialists to observe weather conditions for timely preparation against storms and floods.

Apart from climatic risk, we also identified "radiation" as an urgent environmental factor for the first time during our annual environmental factor identification and evaluation process. Radiation emerges from the use of certain production equipment in our operations and might pose a threat to our environment and people. Relevant policy and management control procedures are already in place to control and mitigate the risk.

Business Continuity Management

Another way to improve resilience of our business is through business continuity management, which comprises of hazard evaluation, prevention and preparation. Our Risk Assessment and Business Impact Assessment Committee is tasked with determining hazards that are material and relevant to our business on a yearly basis. Concerned departments need to reference to the evaluation results to review current prevention, continuity and recovery plans, or formulate new ones. We have assigned priorities and prescribed recovering time to each hazard to support timely, ordered and efficient resumption of business with an aim to limit disruptions brought to our operations. All business continuity plans are reviewed and audited once a year to ensure applicability and effectiveness.

Currently, we maintain continuity plans for logistics, labour shortage and disputes, financial safety, failure in the supply of water, electricity or other key equipment, accident, and IT failure.

Innovation and Intellectual Property

Driving innovation is central to our long-term success in this constantly changing high technology industry. Managing our intellectual properties, incentivising employees to develop advanced technology and providing a favourable environment that respect innovations are all critical tasks that encourage our continuous growth.

As a leading technology company with a specialisation in R&D, our Group receives research subsidy from the government constantly as a stimulus and recognition to our contribution to the field. This year, the Pingshan Technical Innovation Service Department granted us research funds of over 1.5 million RMB. The funding greatly supports our continuous innovation and development of patent rights.

We were granted research funds of over 1.5 Million RMB in 2018

Similarly, O-Net rewards its employees internally to incentivise their contribution to enrich our Group's intellectual property. The reward system is implemented by our review panel, which is set up to review, promote and supervise intellectual property related issues. Under the system, patent proposers will be rewarded after patent application and approval respectively. Employees whose patents contributed to the company significantly during the year will also receive cash rewards as a token of appreciation and recognition.

The large quantity of patents owned by the Group symbolises access to vast business opportunities and the ability to meet diverse customer needs. We will continue to leverage our competence to design and innovate, in order to strengthen our products and services. During the Reporting Period, we applied for 80 patents, including 24 utility patents and 56 invention patents. Among them, 4 utility patents were approved.

	2017	2018
Number of Patents Applied	76	80
Number of Patents Approved	7	4

Protecting and Respecting Innovations

Innovations and intellectual properties are valuable assets of the Group. To better protect our R&D and other innovation-related works, we implement stringent control to restrict accessibility of our R&D office and laboratories to concerned persons only. Employees are also incentivised to report violations and infringement to our intellectual property rights with our reward mechanism.

While we strive to safeguard our own intellectual property rights, we also respect innovations from other organisations. At orientation training, we promote the awareness to the proper use of intellectual properties to minimise the risk of infringing others' intellectual property rights at our operations. During the Reporting Period, our Group complied with the Patent Law of China.

Persistence in Operational Excellence

Quality, efficient and safe production is the bedding of our operations. As a corporation that aspires to "change the world with technology", we continue to persist in operational excellence, while emphasising on product safety and customer care, in order to create products and services that can surprise the world.

"Change the world with technology"

Management Control Systems

Our operation is supported by a comprehensive integrated management system ("IMS"), on which we rely to attain our business ambitions. It is developed with reference to the following international management standards:

- ISO 9001 Quality Management System
- ISO 14001 Environmental Management System
- ISO 50001 Energy Management System
- ISO 13485 Medical Devices – Quality Management Systems
- OHSAS 18001 Occupational Health and Safety Management System
- TL 9000-H Quality Management System
- Current Good Manufacturing Practice Regulation (CGMP) Management System

Among the above, our IMS's compliance with ISO 9001, ISO 14001, OHSAS 18001 and TL 9000-H management standards were confirmed and verified by two internal audits and two external audits during the Reporting Period. Minor rectifications and improvements were executed and monitored to achieve continuous improvement.

Efficient and Quality Production

At O-Net, we uphold quality production by always adhering to our quality assurance policies. It is our mission to efficiently produce safe and quality products that can help our customers create value.

Product Traceability

Developing product traceability enables us to track the details of a given product's production process, which allows quick and accurate identification of specific procedures that might have led to product defect, if occurred. In light of this, we adopted a barcode labelling system to establish traceability of our products. With just a simple scan of the barcode, we can gain access to information, such as workers involved in the production and results of quality inspections. This useful tool supports our immediate response to malfunctioning procedures, hence providing greater certainty to our quality control.

Quality Assurance

Incoming Materials	We begin our exhaustive quality inspections with our incoming material. Depending on the material type, purchase quantity, and supplier's past records in raw material quality, a varied number of random samples would be sent for quality testing. Subpar raw materials are forbidden to enter our production line. We systematically store and manage details of every batch of incoming material in a central database for future reference.
Production	Moving on from incoming materials, we apply equally stringent control in our productions. We follow an internal guideline to control our production environment such that it is favourable to produce high-tech goods of the best quality. Humidifiers, air filters, air shower rooms and equipment for electrostatic control are installed and supplied as needed to maintain a desirable production environment. Employees are obliged to wear work uniforms and restricted to bring unnecessary personal items into the workstation to avoid contamination. To ensure competence and craftsmanship of our employees, they must participate and pass the mandatory orientation trainings before commencing their work duties. We also conduct in-process quality assurance daily at the workstation to assess if our operations adhere to our internal production policies. All non-conformities identified are properly recorded and reported to the corresponding person in charge for timely correction. In addition, our products undergo multiple automated quality inspections during the production process. The automation technology provides us with a great advantage to minimise human error, and a stronger assurance to our product quality.
Storage	Our raw material, semi-finished parts or finished products might be stored on our premise shortly before proceeding to the next production stage or prior to delivery. It is therefore crucial for us to also monitor the physical conditions of our storage area, such that the quality and functionality of our stored materials will not be affected.
Change in Production	In times when there shall be variations in key material supplier or production procedure for a given product, our R&D team with collaborate with other responsible departments to assess the impact of the change on the resultant product's functionality and reliability. When necessary, sample testings will be carried out to determine if the change is acceptable with regards to product quality.

Continuous Operational Advancement

The foundation to pursue excellence is continuous improvement. To guide our operations to progressive quality improvement, we formulate a long-term quality control plan annually to set out our KPIs and targets for the coming 5 years. Departmental improvement plans are devised with a bottom-up approach, where our staff propose suggestions that are relevant and specific to their department's operational characteristics or weaknesses. The KPIs and targets raised in the 5-year plan are monitored closely within departments on a monthly, quarterly or yearly basis to ensure our operations are on track.

On the other hand, our tradition of organising the annual internal competition on "continuous improvement" continued to create a positive momentum within our staff to brainstorm constructive ideas that can enhance operational efficiency and quality. Teams with outstanding proposals were awarded accordingly.

Product Safety and Responsibility

Product safety at O-Net is governed by our quality control procedures and assured with our commitment to eliminating harmful substances from our operations. From raw materials to packaging materials, to the components we use during repair, we strictly and earnestly follow hazardous substance free ("HSF") regulatory requirements, as well as those stipulated by our customers and international standards.

Given our product nature, certain procedures in our operations might involve the use of heavy metals. For production that involves the use of certain harmful materials, we utilise clear classification and labeling of our production area to avoid confusion and contamination with HSF production. This practice is sufficiently monitored daily by our in-process quality assurance personnels.

We take our corporate responsibility to product safety seriously. Other than internal assurance policies, we also ascertain the safety of our products by engaging third parties for compliance testing on a regular basis. During the Reporting Period, we submitted a total of 45 products for independent verification on their compliance to international HSF standards. 43 of which were tested according to the Restrictions of Hazardous Substance Directive ("RoHS"), while 2 were examined on the presence of Hexavalent chromium (Cr6+), a recognised human carcinogen. We also sent a packaging material to the third party to confirm its compliance to the European Commission directive on packaging and packaging waste. No hazardous or restricted materials were discovered in our tested products and packaging material in 2018.

Due to our tireless effort in ensuring the safety of our products, we recall no products due to health and safety reasons. We also received no request on product return from our customers due to HSF concerns.

Customer Engagement and Satisfaction

As illustrated in our corporate culture, achieving customer service excellence is our priority. We strive to establish ourselves as a professional, reliable and trustworthy business partner by always engaging our customers, and catering to their customised needs and concerns.

Engaging our Customers

Understanding our customer's unique sets of needs and preferences is the first step to begin our customer care services. Every year, we analyse our customers' purchase volume, delivery preference and feedback in a customised report that is communicated both internally and to the concerned customer. The results allow us to devise more personalised and attentive service to further gauge customer satisfaction in the following year. Other than that, we also organise meetings with selected customers to discuss expectations and improvement measures regarding product cost, product quality and our production capacity. This form of interactive communication is undoubtedly effective in building up mutual trust and shared expectations, which are critical for forging healthy and friendly relationships with our customers.

Our annual customer satisfaction survey is also an excellent engagement tool that helps us monitor and manage our service performance in a holistic approach. Unsatisfactory items reflected in the survey would require immediate remedy and follow-up investigations. Within the Reporting Period, we engaged 20 customers in the survey and the overall satisfaction result was 89% (2017: 88%), which exceeded the 2018 KPI requirement. Survey showed that our performance aligned with our customers' perceived expectations. On the other hand, the Group experienced the greatest improvement in "Quality", which was essential in gaining trust and loyalty from our customers, as well as to acquire potential new customers through word of mouth.

Exceptional Customer Care

To maintain high-level of customer services, we formulated a set of guidelines that detail the standard procedures to communicate with our customers, handle their inquiries and resolve their concerns. Our employees are obliged to follow the guidelines to offer help and assistance in a prompt and genuine manner.

We also have an official policy in place to respond to customer dissatisfaction. In general, all departments must prioritise customer complaints in their agenda and process them within the agreed timeframe. Departments are held accountable if they shall fail to resolve the complaint within the stipulated time. Every month, we analyse statistics and information relating to product complaints and product return cases to investigate the weaknesses of our production and loopholes of our quality assurance procedures. Short-term and long-term mitigation measures with implementation and monitoring plans are then raised to address the cause of the problem for continuous improvement.

Sustainability in Our Supply Chain

To support sustainable development in our business and beyond, we take initiative to engage our suppliers in controlling and improving their sustainability performance. We collaborate closely with them to blend our sustainability values into our supply chain management, such that O-Net's social, environmental and economic responsibilities can be fulfilled.

Sustainable Supply Chain

We are dedicated to constructing a sustainable supply chain that can effectively mitigate risks, enhance our production and service quality, while exerting positive impacts in the society.

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 supplier Code of Conduct, and a corporate social responsibility agreement, which regulates a wide range of terms with reference to international and industry standards, including labour rights, environmental protection, workplace health and safety, anti-discrimination, and business ethics.

For instance, suppliers are obliged to minimise the usage of packaging materials during manufacturing process and assure that their emission levels meet with national and local emission standards. Regular maintenance should be carried out to ensure vehicles are well restored. In order to ensure workplace health and safety, inflammable, explosive and dangerous goods should be properly transported and kept. Inspection are also carried out randomly to ensure suppliers are mindful of and adheres to the Code of Conduct at all times. More importantly, the agreement requires suppliers to refer to multiple international standards, such as ISO 14001, OHSAS 18001, ISO 26000, and the Electronic Industry Code of Conduct issued by the Responsible Business Alliance, to establish and evaluate their management systems according to the principles of sustainable development.

Hazardous Substance Free (HSF)

We implement a handful of control measures to regulate and monitor supplier's use of environmentally-harmful substances. We allocate responsibility to our suppliers for maintaining the validity of their HSF-related documents regularly, including warranty of compliance to HSF, as well as results of "REACH substance of very high concern (SVHC)" survey. They also need to provide a third party laboratory test as an additional proof on their material safety on a yearly basis. In 2018, 84% of our approved suppliers pledged to use HSF materials exclusively, while 3 batches of incoming materials failed our HSF standard, all of which were sent back to the respective suppliers.

Stability

One of our priority tasks in managing our supply chain is to diversify and expand our supply chain network. In general, we require all materials to have at least two approved suppliers to minimise operational risks. We are hence diligently working to enlarge our supplier base for materials that are only supported by single suppliers by devising relevant plans quarterly.

In addition to improving single suppliers, stabilising the supply of important materials, which is defined as valuable ones or ones with limited market supply, is also key to our sustainable operations. Every year, we establish a supplier certification plan for important materials to strengthen the supplier base of important materials, such that risks associated with individual supplier failure can be dispersed.

Responsible Sourcing of Minerals

At O-Net, we recognise the environmental and social risks associated with illegal extractions and trading of conflict minerals[1]. Therefore, we are actively joining forces with our suppliers for a sustainable solution to fully eliminate the use of conflict minerals in our value chain.

[1] Conflict metals refers to rare metals, including cassiterite, wolframite, coltan, iron, and gold ores, extracted within Democratic Republic of the Congo and its neighboring countries and regions.

We developed the O-Net Conflict Minerals Policy consistent with the Due Diligence Guidance for Responsible Supply Chains of Minerals from the Organisation for Economic Co-operation and Development (OECD) to regulate the use of conflict minerals in our operations. The full policy, as a manifest of our corporate social responsibility, is now transparently available on our website for stakeholders' reference. The principles of the policy are also incorporated into our supplier requirements and Code of Conduct, which are well-communicated to our suppliers.

As a measure to restrict the use of conflict minerals in our supply chain, we require our suppliers to conduct due diligence and verify their conformity to our conflict-free sourcing initiative. In 2018, 474 suppliers were requested to confirm their compliance to our conflict-free sourcing initiative, among which 80% (2017: 65%) had affirmed to use conflict-free minerals only. We shall encourage our suppliers to continuously improve their practices, while we strive to enhance their awareness and build their capacity through training and engagement. We also open our door for stakeholders to raise concerns or report on suspected violations regarding the use of conflict minerals in our operations. All received feedback will be addressed and investigated promptly and thoroughly.

Fair and Open Procurement Practices

The Group strives to maintain a merit-based procurement mechanism that is free of corrupt human manipulation. As a rule of thumb, a minimum of three quotes from different suppliers are required for a fair and just comparison on price and quality during procurement. In addition, certain number of procurement cases are randomly selected and examined each month to assess human misconduct. When violation is discovered and verified, a report detailing the event will be internally published to assist with the investigation by senior management, while the concerned employee will be subject to disciplinary actions. As a result of our potent management, no malpractices were reported during the Reporting Period.

Supplier Management

To deliver the highest quality of products and services, a stable supply chain is fundamental. We must therefore guarantee the competence and reliability of our suppliers by adopting a fair and objective assessment and management system that evaluates potential suppliers based on virtues.

Supplier Management Model

New Supplier Certification

- Conduct comprehensive evaluation on quality system, manufacturing competence, financial stability and other certifications
- Prioritise potential suppliers with quality management system qualifications
- Perform site visit to audit potential suppliers of important materials
- Require newly certified suppliers to enter into our Supplier Code of Conduct

Daily Management

- Send "Supplier Corrective Action Request" to suppliers with unsatisfactory performance and monitor their improvement progress
- Formulate annual site visit plan to conduct site audit at supplier's production base and require corrective actions when malpractices are discovered

Performance Review

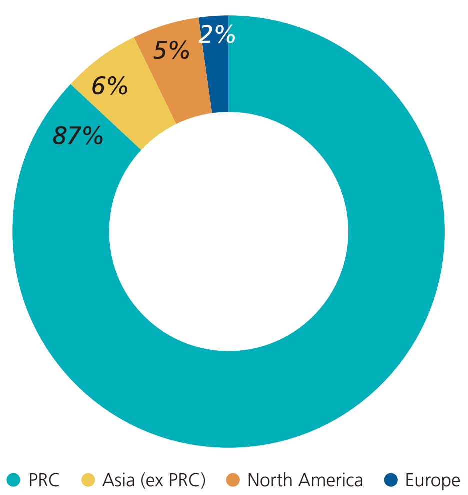
- Monitor and record selected suppliers' performance on quality, as well as business management monthly
- Evaluate selected suppliers' holistic performance on product quality, price level, delivery and coordination half-yearly and yearly
- Communicate results of biannual and annual performance review to concerned suppliers to encourage continuous improvements

Overview of Our Supplier Profile

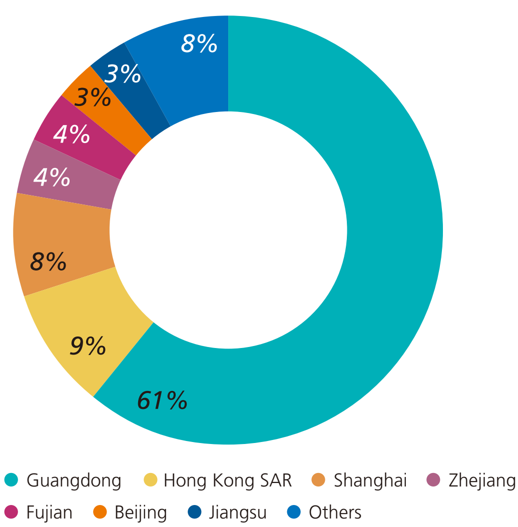
In 2018, we have a total of 340 suppliers on our approved vendor list. Among them, 87% of the suppliers are from the PRC, while others are from countries such as the U.S., Canada, Japan, Taiwan, Malaysia, France and Germany. By sourcing regionally, not only can we mitigate supply chain risks regarding customs and transportation, we can also significantly reduce our environmental footprint during the transportation of raw materials.

Among the 340 suppliers, 65 of them were suppliers for important materials. From the annual supplier performance review results, 36 of them were rated as grade A, 27 as grade B, 1 as grade C and 1 as grade E.

2018 Number of Suppliers in Different Geographical Locations



2018 Number of Suppliers in Different Parts of PRC



Respect For the Environment

The nature is our common wealth and treasure. At O-Net, we demonstrate our dedication and respect towards the environment by integrating the principle of environmental protection into our operations and management policy. As a testimony, we have transparently published our environmental pledges and policies on our corporate website. Stakeholders can now gain a better overview on how we manage our environmental impacts ranging from emissions control to the introduction of green products.

Product Life Cycle Management

Responding to the increasing appetite to product sustainability in the market, our Group are beginning to consider environmental factors of our products throughout their entire lifecycle – from the extraction of raw materials, design, manufacturing to disposal. Currently, we are starting to implement related procedures in our operations, therefore only initial identification of environmental factors from a life cycle perspective is performed at the product design stage.

"Green Product, Green World" is our corporate strategy.

As a preliminary step to manage our product's life cycle, we conduct environmental audit to every new product to assess their environmental impacts during the product development stage. Taking a life cycle perspective, environmental factors including the product's emissions, energy consumption, lifespan, and the material characteristics of the product, such as recyclability and biodegradability are determined and considered. The audit results are used to advise management to make informed decisions regarding product launch.

Designing Green Products With Life Cycle Considerations

There are vast opportunities to lower a product's environmental impact at its use stage. Enhancing product energy efficiency is one of them. Our top-notch O-Net 2kW Fiber Laser System designed by our subsidiary is characterised by its high optical energy transfer efficiency – its electricity consumption is 30% less than the domestic suppliers' average. Environmental footprint of the product at the use stage is hence smaller than products alike. We shall continue to harness our R&D work to introduce more green products with lower life cycle impact to the market.

Resource Consumption

Our economy is founded on a pool of finite resources, which are shared not only between communities and regions, but also among current and future generations. In order to achieve sustainable development and maintain resource availability, corporations have the responsibility to decouple their growth from their environmental footprint and resource consumption.

We strive to optimise resource efficiency of our production to safeguard our common natural resources and improve resilience of our business. During 2018, we introduced 3 resource efficient measures that have both environmental benefits and financial implications:

- Replaced existing optical adhesive with an alternative that is less resource-intensive, yet more cost-effective
- Enhanced operation efficiency of capping machine, which reduced our consumption of pressurised hydrogen by 48 tonnes a year
- Practiced tin recycling and collected scrap tin to our tin supplier in exchange of new tin strips

Our material consumption also appears in the form of packaging, which is important in protecting our precise-calibrated products from being damaged during transportation. To better monitor our packaging material consumption, we perfected our data collection system and started recording the weight of our packaging material used during 2018. As of 31 December, we consumed approximately 77 tonnes of plastic, 60 tonnes of carton boxes and 8 tonnes of sponge.

Emission Control

Emissions from our operations arise from exhaust gas emissions, chemical leakage, greenhouse gas ("GHG") emissions and sewage emissions. Our sewage emission management is described in the "Water Management" section. We are devoted to manage our emissions in coherence with regulatory standards and requirements by strictly following our internal environmental procedures. Due to our tireless effort, no environmental incidents or violations against relevant environmental laws were recorded during the Reporting Period.

Exhaust Gas Emissions

Exhaust gas emissions of the Group arise from 3 major sources – our production area, kitchens and fleet. The Group continued to engage an external environmental monitoring entity to conduct annual air pollution inspection at the factory premise to facilitate the management of our air emissions.

Monitoring results showed that our industrial waste gas emissions were under sufficient control, with pollutant concentrations falling far below the allowed provincial standards. However, results of the oily fume emissions from the two kitchens were not up to par. The two samples recorded an average of 6.3 mg/m^3 and 2.76 mg/m^3 oily fume emission level, which slightly exceeded the national standard of 2.0 mg/m^3. We shall vigilantly review and improve the implementation and effectiveness of our oily fume emission control measures to ensure compliance in the coming year.

As for the exhaust gas emissions from our fleet, no official monitoring record is available at present due to the lack of precise monitoring system in place. However, we assure that the vehicles owned and operated by the Group are regularly checked and properly maintained to guarantee compliance to applicable standards. We may start recording relevant data for more comprehensive disclosure next year. In addition, our Group also holds itself accountable to lower the emissions from our outsourced shuttle service. To mitigate and minimise exhaust emissions from the shuttle buses, the fleet that provides the service is constituted by electric buses, which emit significantly fewer pollutants than diesel buses.

Chemical Leakage

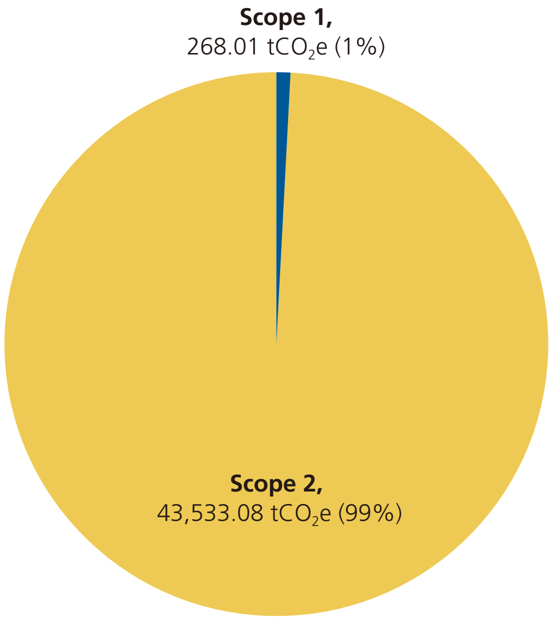
We store all of our chemicals centrally in a warehouse, which is managed carefully to minimise the risk of chemical leakage. As basic protection, all hazardous chemicals are securely stored in a double-layered container, where the outer container has a 110% capacity of the inner one to prevent leakage. The storage area also has an anti-leakage design to collect all leaked chemicals to an underground collection pool through pipes, if necessary. This can effectively avoid contamination to underground water or the surrounding environment.

We also perform daily walkthroughs in the chemical storage warehouse, as well as regular facility check to identify and rectify risks related to chemical leakage. Chemical spill drill and chemical handling trainings are organised regularly to reinforce concerned staff's awareness and calibre to properly handle and use the chemicals. Due to our tireless effort, we complied fully with Regulation on the Safety Management of Hazardous Chemicals and Rule for Storage of Chemical Dangers, and recorded no chemical leakage incident during the Reporting Period.

GHG Emissions

Understanding one's carbon emissions profile is the prerequisite of effective carbon management. This year, our Group continued to engage an external consultancy to understand our carbon profile. The scope of our GHG emissions audit during the Reporting Period includes direct emissions and indirect emissions arise from the use of energy, which amounts to approximately 43,800 tonnes of carbon dioxide equivalent.

2018 Greenhouse Gas Emissions Profile



Our carbon emission profile in 2018 was represented largely by energy indirect emissions, which totaled to 99.4% of our total emissions. The remaining emissions was contributed by direct emissions of the combustion of fuel by our fleet and cooking activities in the kitchens of our staff canteen. To effectively curb our carbon emissions, we adopted multiple energy efficient measures in the form of operational changes and hardware upgrades in 2018, please refer to "Energy Management" for more information.

Carbon Trading

Committed to manage and curtail our carbon emissions in a reliable manner, the Group participated in the pilot carbon trading market in Shenzhen in 2017. Covering 40% of the city's carbon emissions, the Shenzhen trading market aims at mitigating climate change with a market-based approach. In 2018, our Group was excited and pleased to engage in the trading for the first time. However, as the trading amount is still being audited, quantitative figures will only be disclosed in the following year.

Energy Management

Similar to 2017, our energy consumption is the largest contributor of our carbon emissions during 2018. Energy management therefore continues to be the priority in managing our environmental impacts. In light of this, we established our energy management system with reference to national and industry standards in 2017. Certified with ISO 50001 Energy Management System standards, our system governs all energy-related activities of the Group, including the procurement, transmission and use of energy, as well as construction activities, product designs and adoption of equipment. The aim of our energy management system is to achieve the following:

1. Improve energy efficiency and lower energy consumption
2. Control environmental impacts brought by the use of energy to promote sustainable development
3. Comply with laws and regulations to fulfil our pledge

To effectively reach the above goals, strategic policies with concrete measures are essential. The following table captures some of the highlights of our energy management initiatives with reference to the 4 major principles of our policy.

Compliance Management

- Identify and respond to new and updated laws and regulations relating to energy use regularly
- Consider regulatory requirements when reviewing energy management system

Design and Innovation

- Consider utilising renewable energy when renovating old facilities or building new facilities
- Evaluate energy intensiveness of products at the design and development stage, and adopt new production technologies to improve energy efficiency when possible

Energy Saving and Efficiency

- Communicate the requirements, principles and measures of our energy management policy to our employees through training and other engagements
- Analyse energy use and implement operational change to improve energy efficiency accordingly. In 2018, the Group supported the following initiatives and saved 1,565,000 kWh of electricity:
  - Reduced number of idling equipment and machineries
  - Reorganised production location and adjusted layout of the production area to share lighting
  - Employed emergency lighting system instead of regular lighting system along aisels
  - Optimised production process
- Enhance energy efficiency of existing equipment. In 2018, the Group performed the following measures and saved 25,300 kWh of electricity:
  - Replaced mercury lamps with LED light tubes
  - Recycled heat from the central air conditioning system for hot water supply
- Continue to adopt solar heating system and inverter air conditioning system to lower our energy consumption

Continuous Improvement

- Set up energy saving KPIs and targets for different operating procedures every year
- Establish channels for employees to engage in the energy management work and to allow constructive reflections
- Conduct energy audit and other monitoring work regularly to devise relevant and efficient improvement measures
- Review energy management system annually

Water Management

Water is another valuable resources that our Group strives to conserve. Major water usage of the Group originates from cleaning process in production and domestic use. To encourage the wise use of water, we put up conservation signs and bulletins in our workplaces and staff dormitories. Water supply facilities and pipes are checked every day to ensure proper functioning and no leakages. Our Group also uses recycled water from our rainwater collection system and treated sewage for greening and housekeeping at the facility. In the Reporting Period, the Group consumed approximately 417,097 m^3 of water.

Sewage Emissions

In general, our factory premise generates two types of sewage – industrial sewage and domestic sewage.

Our on-site sewage treatment facility plays a critical role in ensuring our industrial sewage discharge adheres to regional standards. All industrial sewage generated at our production procedure is directed to the sewage treatment station for purification before discharge. The facility has a capacity to treat around 12,500 m^3 of sewage annually. To ensure the effectiveness of our treatment procedure, an external environmental consultancy was engaged to inspect on the quality of our treated sewage quarterly. Monitoring results within the Reporting Period were satisfactory with full compliance to the Guangdong Regional Discharge Limits of Water Pollutants. In 2018, we fulfilled our KPI of zero industrial sewage emissions.

Zero Industrial Sewage Emissions

Domestic sewage from our premise is also observed and tested annually by an environmental consultancy. In 2018, inspection results also complied with the above regional standard.

Waste Management

At our facility premise, we generate five types of waste: recyclables, non-recyclables, hazardous waste, kitchen waste and construction waste. To enable systematic waste management, we have devised a waste handling policy that requires all types of waste to be labelled properly and stored separately before disposal. The separated wastes are then collected and handled by specific professional service providers appointed by the Group according to local regulations. As the management of non-hazardous waste is outsourced, no comprehensive monitoring data is available.

On the other hand, our hazardous waste profile is mainly comprised of waste organic solvent, sludge and contaminated tools or personal protective equipment, which are by-products of our production and sewage treatment process. To ensure proper management of such waste, trainings are provided to responsible personnel to raise their awareness and improve their competence in this regard. Similar to non-hazardous waste, all hazardous waste is securely stored with correct warning labels attached before transferring to the contracted service provider, who collects and processes our hazardous waste for responsible disposal. During the Reporting Period, we have transferred 100% of our hazardous waste to the designated service provider for further processing and disposal in accordance with the "Administrative Measures for Hazardous Waste Transfer Manifests".

100% Transfer and Treatment of Hazardous Waste

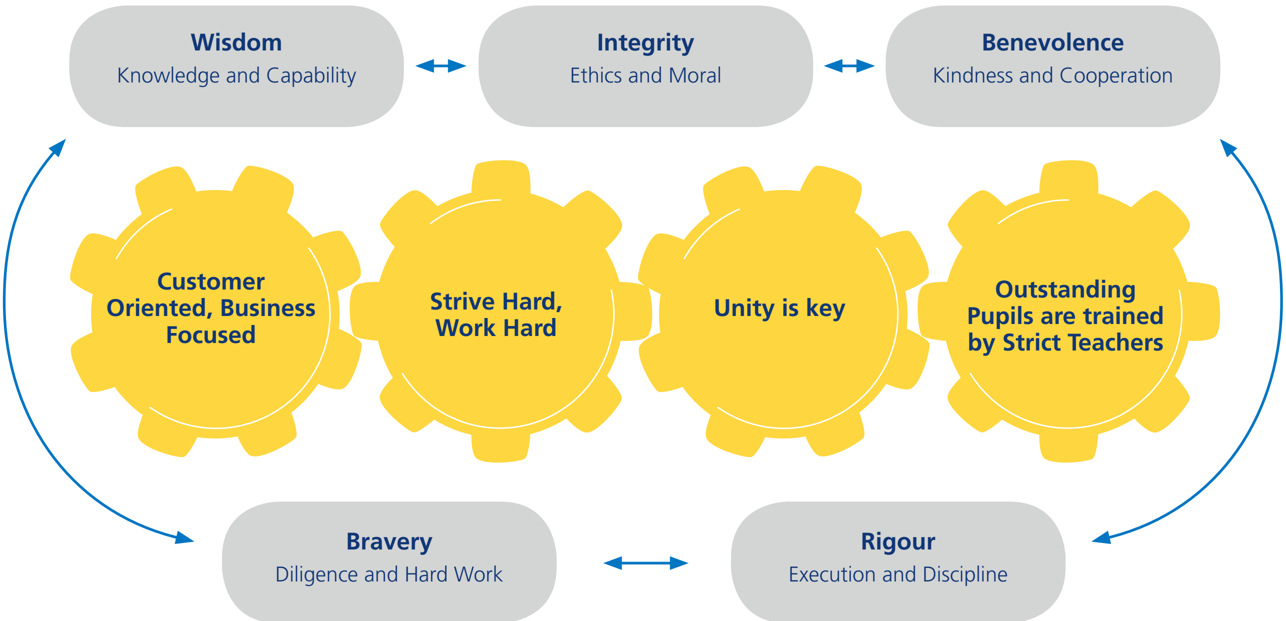
Care for the O-Net Family

We cultivate and emphasise the idea of "family" within O-Net. Adopting a people-oriented approach, we strive to attend to our people's wellbeing, and to develop and retain our best talents in a way that exemplifies our corporate culture, which we deem essential for our enduring corporate success.

"O-Net-ese always wins!"

Corporate Culture

The development of our corporate culture dates back to our establishment in 2000, and became official in 2017, which we set as the "Corporate Culture Establishment Year". Our management regards corporate culture not only as a critical element to a cohesive and effective workforce, but also as a compass to navigate the company through uncertainties and fluctuations that said, it is important for us to continuously review and refine the pillars that constitute our corporate culture – our vision, mission and values, and to keep them aligned with our business strategies. During 2018, our directors and management devoted themselves to enhancing the comprehension of our corporate culture to provide better guidance for the proper execution of our culture and values.



Promoting Our Core Values

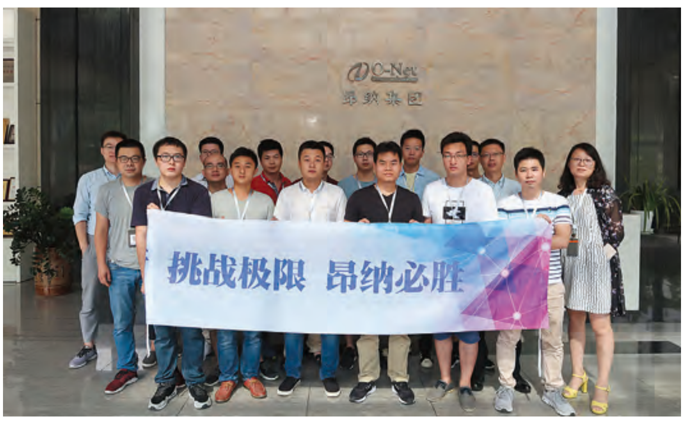
We strive to instil our corporate culture in our employees to establish a common ground where our expectations are communicated and understood. To achieve this, we incorporate and ingrain our values into our trainings, staff activities and work environment to constantly remind our staff of their proud identity as an "O-Net-ese".

O-Net Corporate Culture Conference

We held our third Corporate Culture Conference in May 2018 to bolster our corporate culture principle of "Strive Hard, Work Hard". Outstanding employees were invited to share their experiences on stage as an inspiration to their fellow colleagues. It is also a perfect occasion for the Group to recognise and appreciate the "fighter" characters in its employees.

Symposium on Corporate Values

Our management shoulder great responsibility in ensuring our corporate culture is embodied in our operations. In October 2018, our Group invited all management staff to a 3-day symposium on our corporate values to facilitate the understanding, implementation and succession of our culture. Our director delivered key speeches at all symposium sessions to manifest the Group's dedication to uphold our corporate culture.



"Spokesperson" of Our Culture

Our employees are the living examples of our corporate values and culture. By publishing stories and experiences of our employees that exemplified the O-Net spirit in our internal newsletters, we aim to motivate our employees to reflect on themselves and learn from their peers for personal excellence.

Enhancing the "O-Net Brand"

In 2018, the major agenda of our corporate culture programme was to strengthen employees' sense of belonging to the Group, and to stimulate their momentum to drive towards continual corporate development. Various themed activities that expound our key company values were therefore held to buttress our brand as an employer of choice in the market. Please refer to the "Care for the Community" section for details of the events held.

Employee Training and Development

A training opportunity symbolises a development possibility. At O-Net, our people enjoy numerous training and development opportunities that are designed to enhance their individual capacity. We invest heavily in our comprehensive training programmes, where employees gain professional, technical and transferable skills to realise their career aspirations. In 2018, all employees fulfilled their required Group-level trainings and departmental trainings.

100%

Accomplish Rate of Corporate and Departmental Trainings

Orientation Training

All new employees are welcomed with an induction training. Aiming at familiarising our newcomers with our corporate environment, culture and practices, the training is conducted in an interactive manner where new hires learn essentials of the Group through group activities and competitions. During the Reporting Period, all newcomers attended the orientation training.

2018 Graduate Training Programme

Satisfaction Rate

4.95/5

Our annual graduate training programme was held in July 2018 with 48 graduate participants. To highlight our Group's enthusiasm and emphasis towards talents cultivation, the Group's director, along with other management, shared their valuable work experiences, as well as their expectations towards the graduates as a part of the O-Net family during the training. Internship at the production area and group competitions were also held to prepare the graduates for smoother work transition and facilitate team-building.

Environmental, Social and Governance Report

O-Net 2018 English Training Project

With the rapid development of the Group, business engagements with international companies are becoming more frequent. To facilitate communication with our customers around the globe, the "O-Net 2018 English Training Project" commenced in July 2018 with active support from directors and management. During the two-month training project, a wide range of courses were conducted with customised themes that are practical for workplace communication. Various online courses were also available for employees to learn the language at their own pace. Employees are now more confident to communicate in English than ever.



"You Learn!" Training Series

We strive to nurture our people into well-rounded individuals who possess the necessary soft skills to bring momentum to corporate growth. The "You Learn!" training series was therefore organised, presenting a total of 9 courses under two categories – comprehensive quality and general management skills. Qualified external tutors were invited to hold training sessions with our employees. The training series received very positive and enthusiastic responses with all quotas filled. We look forward to organising more training activities in the future as a response to our employees' passion to learn.

Topics of the "You Learn!" training series:

Comprehensive Quality

- Public Presentation Skills
- Emotions Management
- Art of Communication
- Professional Image
- Excel Skills

General Management Skills

- Talent Management
- Retaining Good Employees
- Management Mindsets
- Thinking of Competitive Advantage

Elite Programme for O-Net Internal Instructors

We commenced our internal instructor programme last year in response to the growing demand for capacity building within the Group. Given our heightened and escalated corporate development, the support from our internal instructors is indispensable in our talent management. In September, 26 internal instructors participated in a 3-day training programme that aimed at strengthening their overall teaching ability. After the training, we certified a total of 4 junior instructors, 6 assistant instructors and 4 intermediate instructors.

We are thankful to the dedicated efforts made by our internal instructors. On Teacher's Day, we prepared a letter of gratitude, along with a bouquet of flowers, to our internal instructors as an expression of our appreciation.

Occupational Health and Safety

A safe workplace that is free of hazards is a prerequisite for a committed workforce. At O-Net, occupational health and safety ("OHS") is managed by our IMS that is formulated with reference to international safety standards. During the Reporting Period, our system's compliance to OHSAS 18001 was audited and confirmed externally.

Our special task force, the Environmental and Occupational Health and Safety Committee, also plays a vital role in promoting our OHS performance. They are responsible in planning, execution, and monitoring of our OHS policies, measures and practices. They also maintain our system's applicability, suitability, effectiveness and comprehensiveness to our operations. Under the substantial leadership of the committee, the following highlighted OHS initiatives, practices and policies were performed strenuously during the Reporting Period:

Annually	• Engage external consultancy to conduct OHS hazard identification and monitoring and disclose relevant results at the work area with OHS risks transparently • Conduct fire drill and emergency drill on accidents relating to the use of special equipment and chemical leakage
Quarterly	• Review if safety measures regarding equipment use, electricity supply, personal protection equipment use, fire prevention, waste management and chemical management, amongst others, are carried out properly as described in policies
Monthly	• Arrange fire safety equipment inspection and record detailed results for follow up improvements • Inspect on the use of personal protection equipment
Ongoing/Regularly	• Organise training on fire safety, occupational health, use of personal protection equipment and use of hazardous chemicals regularly for responsible persons, among others • Supply necessary personal protection gears to employees and monitor their use • Ensure employees who are exposed to health risks undergo regular health checks • Offer extra protection towards female employees who require additional care during different menstrual and pregnancy stages

OHS Risk Assessment

Supplement to external OHS hazard identification and monitoring, we also perform similar practice internally to identify sources of danger and risks in our operations on an annual basis. All departments are responsible to identify the risks and dangers specific to their operations, and evaluate their danger level based on their likelihood, exposure and consequence of happening. In 2018, we identified 7 new hazards in our operations relating to the use of laser and chemicals, as well as risk of short circuit. Relevant departments already proposed and executed control measures to lower the probability, effect or exposure of the hazard.

Similar to our practices last year, the Group engaged a professional consultancy to conduct an assessment on workplace biochemical and physical occupation risks in September 2018. This year, two of the biochemical health risk test points and five of the physical risk test points exceeded their respective limits as set out by the PRC government. To protect its employees from potential biochemical health risks, the Group will ensure its employees who are exposed to chemicals are equipped with chemically impermeable gloves and alkali resistant masks. Earmuffs and earplugs will also be provided to employees when they carry out job duties in order to protect them from noise pollution.

Fair Workplace Practices

Fair workplace practices are vital for attracting talents and retaining high-calibre professionals. At O-Net, we respect the contribution of our employees by providing wage and other employment benefits in accordance with labour laws fairly. Our people also enjoy competitive remuneration that exceeds regulatory requirements, such as staff dormitories, adequate training opportunities, performance reward and bonus, among others.

The Group also upholds the principle of fairness and non-discrimination in its operations. We manage our human resources matters on a competence-based approach where just and impartial treatment to our employees is promoted. Discrimination or harassment at the workplace is potently forbidden. As an employer, we also protect our staff's freedom of association and right to collective bargaining. Management engages with representatives from the staff association regularly to promote mutual understanding on concerned issues. A grievance system is set up for employees to report any unfair workplace practices to the management representative, who will arrange investigation and implement timely remedial actions.

Employee Engagement and Wellbeing

An engaging culture is essential to establish staff commitment and loyalty, as well as to improve employee satisfaction towards the Group. Our employees can express their thoughts and opinions on the Group's management and operations through emails, comment boxes, training feedback surveys, dismissal interviews and regular meetings. During 2018, our management team received and resolved a total of 720 inquiries from our production workers from the above channels.

We also added a new means of communication on our WeChat account, which supports direct messaging and interaction through the chatbox. This greatly enhanced the ease of communication when compared to formal engagement channels. All comments received will be examined and considered by the Group.

The Group is also proactive in promoting employees' welfare. During the year, we enhanced our shuttle service plying between our factory premise and the greater Shenzhen area by adding 3 extra lines after considering the practical needs of our employees. We shall explore more opportunities to advance our operations and further our support to our employees.

Care for the Community

We are passionate in creating positive impacts in the society through concrete and practical actions. Through the following activities, we strive to enhance the well-being of our O-Net family, while forging friendly relationships with external groups.

Within O-Net

Employing over 3,800 individuals in our facility premise, we regard our O-Net family as a small community that are closely connected to us. Our well-designed employee programmes allow our people to develop their own interests, widen their social circle or simply have fun after work.

Festive Greetings

Festivals are perfect moments to express gratitude and care to our hardworking employees. During Dragon Boat Festival, Mid-Autumn Festival and Christmas, our Group took the initiatives to hold series of festive activities for our employees to enjoy.

Gifts were given out to thank our employees for the contributions they made for the Group.

Mini games were held to foster a happy and lively workplace.

Women's Day

This year, we continued our tradition to express our gratitude to our female employees on Women's Day. More than 200 female employees participated in the event, where they had the privilege to enjoy a shoulder and neck massage offered by professional therapists.

O-Net Family Day

We organised our second O-Net Family Day in June, and it was yet another great success. The event aimed at introducing our business to our employees' family so that they could have a better overview of their loved ones' work and responsibilities at O-Net. Booth games and a children talent competition were also held for the 500 participants on that day. The event promoted stronger bonding within our O-Net family.

Matchmaking 2018

Given the success received from our first matchmaking event organised in 2017, our Group was pleased to hold O-Net's second matchmaking gathering for interested employees on Qixi 2018. Our employees spent a wonderful evening getting to know new colleagues and strengthening their social ties within the Group.

Sports Club

Exercising is beneficial to both physical and mental health. As an encouragement to our employees to do sports after work, 4 sports club are open for employees to join, including the badminton team, basketball team, football team and yoga team. In 2018, our sports clubs had a total of 328 members.

Within the Greater Community

Extending beyond our facility premise, our Group is proactive in engaging with external parties.

Community Basketball Competition

Our basketball team took part in the Pingshan Chuanghe Basketball Competition organised by a local group. Our Group strongly supported such participation as we believe sports is a good and healthy media to help us establish friendly connections within our neighbourhood.

Joint Post-Doctoral Training Programme

In 2018, O-Net started an official collaboration with Changchun University of Science and Technology to jointly train up post-doctoral researchers, and assist them in gaining practical research insights in the commercial environment. As a leading company in the optical networking, our Group has the resources and professional capacity to provide researchers with valuable experience in industrialising their scientific research results. The project hence does not only represent our combined passion towards the community, education and talents cultivation, it also serves as an excellent illustration of our mission to use the power of technology to change the world.

Environmental, Social and Governance Report

Key Performance Table

KPI	Unit	2017	2018
Environmental			
GHG Emissions (Scope 1 & 2)	tCO_2e^-	40,506.92	43,801.09
GHG Emissions Intensity by FTE[2]	tCO_2e^-/Person	8.82	11.51
GHG Emissions Intensity by Revenue	tCO_2e^-/HKD'000	0.02	0.02
Electricity Usage[3]	MWh	42,402.45	45,877.41
Petroleum Usage	Tonnes	71.03	76.49
Diesel Oil Usage	Tonnes	17.18	10.90
Natural Gas Usage[4]	m^3	4,777.00	4,934.00
Total Energy Usage[5]	MJ	156,291,736.60	168,742,035.79
Energy Intensity by Revenue	MJ/HKD'000	76.80	67.07
Water Consumption	m^3	360,344.00	417,097.58
Water Consumption Intensity by FTE	m^3/Person	78.44	109.62
Hazardous Waste Treated	Tonnes	70.74	104.97
Packaging Material			
Plastic	Tonnes	N.A.	77
Carton Boxes	Tonnes	N.A.	60
Sponge	Tonnes	N.A.	8

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 electricity by the outsourced electric buses, and usage of natural gas at the outsourced canteen are excluded in the calculation of the total energy usage.

KPI	Unit	2017	2018
Social			
Workforce Statistics			
Total Workforce	Person	4,473	3,805
Workforce by Gender			
Male	Person (%)	2,734 (61.1%)	2,493 (65.52%)
Female	Person (%)	1,739 (38.9%)	1,312 (34.48%)
Workforce by Employment Level			
Management	Person (%)	/	1,057 (27.78%)
Worker	Person (%)	/	2,748 (72.22%)
Workforce by Age Group			
18–20	Person (%)	/	83 (2.2%)
21–30	Person (%)	/	2,193 (57.6%)
31–40	Person (%)	/	1,323 (34.8%)
41–50	Person (%)	/	165 (4.3%)
>50	Person (%)	/	41 (1.1%)
Turnover Statistics			
Staff Turnover	Person	3,613	2,168
Staff Turnover by Age Group			
18–20	Person (%)	/	77 (3.6%)
21–30	Person (%)	/	1,496 (69.0%)
31–40	Person (%)	/	580 (26.8%)
41–50	Person (%)	/	10 (0.4%)
>50	Person (%)	/	5 (0.2%)
Average Training Hours			
By Management Staff	Hours	30	30
By Worker Staff	Hours	36	36
Work Injury			
Work Injury Cases	Case	1	2
Lost Days Due to Work Injury	No. of Days	/	90

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 2018, the Company was in compliance with all the relevant code provisions set out in the CG Code except for the deviation as explained below.

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

Save as those mentioned above, in the opinion of the Directors, the Company has met all the relevant code provisions set out in the CG Code during the year ended 31 December 2018.

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 2018.

Roles and Responsibilities of the Board

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

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

Composition

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

Executive Director

Mr. Na Qinglin *(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 23 to 28 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 2018 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 2018.

The individual training record of each Director received for the year ended 31 December 2018 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)	N/A
Mr. Chen Zhujiang	√
Mr. Huang Bin	√
Mr. Mo Shangyun (appointed on 8 January 2018)	√
Mr. Deng Xinping	√
Mr. Ong Chor Wei	√
Mr. Zhao Wei	√

Chairman and Chief Executive Officer

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

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

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

Non-Executive Directors

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

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

Board Diversity Policy

The Board adopted a Board Diversity Policy on 27 August 2013 (the "Board Diversity Policy") which sets out the approach to achieve diversity on the Board. The Company recognises 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 Nomination Committee will review the necessity to set any measurable objectives for implementing the Board Diversity Policy from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. The Nomination Committee will also discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

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

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 2018, the Board held 4 meetings. All Directors are given an opportunity to include any matters in the agenda for regular Board meetings, and are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

Name of Director	Number of attendance
Mr. Na Qinglin	4/4
Mr. Tam Man Chi (resigned on 8 January 2018)	N/A
Mr. Chen Zhujiang	4/4
Mr. Huang Bin	4/4
Mr. Mo Shangyun (appointed on 8 January 2018)	4/4
Mr. Ong Chor Wei	4/4
Mr. Deng Xinping	4/4
Mr. Zhao Wei	4/4

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

Corporate Governance Report

General Meetings

During the year ended 31 December 2018, one general meeting of the Company was held, being the 2018 annual general meeting of the Company held on 1 June 2018 (the "2018 AGM").

Name of Director	Number of attendance
Mr. Na Qinglin	1/1
Mr. Tam Man Chi (resigned on 8 January 2018)	N/A
Mr. Chen Zhujiang	1/1
Mr. Huang Bin	1/1
Mr. Mo Shangyun (appointed on 8 January 2018)	1/1
Mr. Ong Chor Wei	1/1
Mr. Deng Xinping	1/1
Mr. Zhao Wei	1/1

The Board is responsible for maintaining an on-going dialogue with shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourage their participation. Mr. Na Qinglin, the Chairmen of the Board attended the 2018 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, 31 December 2016 and 19 March 2019. The terms of reference of the Audit Committee is currently made available on the websites of the SEHK and the Company.

The Audit Committee currently comprises three members as follows:

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

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

Terms of Reference

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

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

The Audit Committee are also responsible for making recommendation to the Board on the appointment, reappointment 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 2018, 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 2018, the Audit Committee reviewed, among others, the annual and interim results of the Group, which were in the opinion of the Audit Committee that the preparation of such results complied with the applicable accounting standards and the Listing Rules; and reviewed the system of internal control of the Group.

Remuneration Committee

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

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

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

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

The Remuneration Committee currently comprises five members as follows:

Mr. Deng Xinping *(Chairman)*
Mr. 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 2018, the Remuneration Committee held one meeting for reviewing the remuneration packages of the Directors and senior management.

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

The emolument payable to Directors and senior management will depend on their respective contractual terms under the employment agreements, if any, and is fixed by the Board with reference to the recommendation of the Remuneration Committee, the performance of the Group and the prevailing market conditions. Details of the remuneration of the Directors and senior management are set out in note 40 to the consolidated financial statements.

Senior Management's Remuneration

Senior Management's remuneration payment of the Group for the year ended 31 December 2018 falls within the following bands:

	Number of individuals
Nil to HKD1,000,000	2
HKD1,000,001 to HKD1,500,000	1
HKD1,500,001 to HKD2,000,000	3
HKD2,000,001 to HKD2,500,000	1
HKD2,500,001 to HKD3,000,000	5
HKD6,000,001 to HKD6,500,000	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 and 19 March 2019. The terms of reference of the Nomination Committee is currently made available on the websites of the SEHK and the Company.

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

The Nomination Committee is chaired by the Chairman. The functions of the Nomination Committee are to review and monitor the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board and made recommendations on any proposed changes to the Board to complement the Group's corporate strategy; to identify suitably qualified individuals to become members of the Board; to assess the independence of the independent 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").

To ensure changes to the Board composition can be managed without undue disruption, there should be a formal, considered and transparent procedure for selection, appointment and re-appointment of Directors, as well as plans in place for orderly succession (if considered necessary), including periodical review of such plans. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidate by the Committee.

The criteria to be applied in considering whether a candidate is qualified shall be his or her ability to devote sufficient time and attention to the affairs of the Company and contribute to the diversity of the Board as well as the effective carrying out by the Board of the responsibilities which, in particular, are set out as follows:

a. participating in Board meetings to bring an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts;

b. taking the lead where potential conflicts of interests arise;

c. serving on the audit committee, and the remuneration committee and the Committee (in the case of candidate for non-executive Director) and other relevant Board committees, if invited;

d. bringing a range of business and financial experience to the Board, giving the Board and any Committees on which he or she serves the benefit of his or her skills, expertise, and varied backgrounds and qualifications and diversity through attendance and participation in the Board/Committee meetings;

e. scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance;

f. ensuring the Committees on which he or she serves to perform their powers and functions conferred on them by the Board; and

g. conforming to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation or the Listing Rules, where appropriate.

If the candidate is proposed to be appointed as an independent non-executive Director, his or her independence shall be assessed in accordance with, among other things, the factors as set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time. Where applicable, the totality of the candidate's education, qualifications and experience shall also be evaluated to consider whether he or she has the appropriate professional qualifications or accounting or related financial management expertise for filling the office of an independent non-executive Director with such qualifications or expertise as required under Rule 3.10(2) of the Listing Rules.

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

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

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

The Nomination Committee currently comprises five members as follows:

Mr. Na Qinglin *(Chairman)*
Mr. Tam Man Chi (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 2018, the Nomination Committee held one meeting for reviewing the structure, size and diversity of the Board, assessing the independence of the independent non-executive Directors and considering the re-election of Directors.

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

Corporate Governance Committee

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

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

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

Corporate Governance Report

The CG Committee currently comprises two members as follows:

Mr. Na Qinglin *(Chairman)*
Mr. Kung Sze Wai (ceased to be a member on 30 April 2018)
Mr. Man Kwok Leung (appointed as a member on 30 April 2018 and ceased to be a member on 31 January 2019)
Mr. Zhou Yu

During the year ended 31 December 2018, the CG Committee held one meeting for reviewing the Company's policies and practices on corporate governance; reviewing the training and continuous professional development of Directors and senior management; and reviewing the Company's compliance with the CG Code.

Name of Director/Member	Number of attendance
Mr. Na Qinglin	1/1
Mr. Kung Sze Wai (ceased to be a member on 30 April 2018)	1/1
Mr. Man Kwok Leung (appointed as a member on 30 April 2018 and ceased to be a member on 31 January 2019)	N/A
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 approximately HKD2,720,000 and HKD1,034,000 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. Tse Kam Fai ("Mr. Tse") was appointed as the company secretary of the Company on 31 January 2019. The biographical details of Mr. Tse 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. Tse has taken not less than 15 hours of relevant professional training during the financial year ended 31 December 2018.

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 2018 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.

Corporate Governance Report

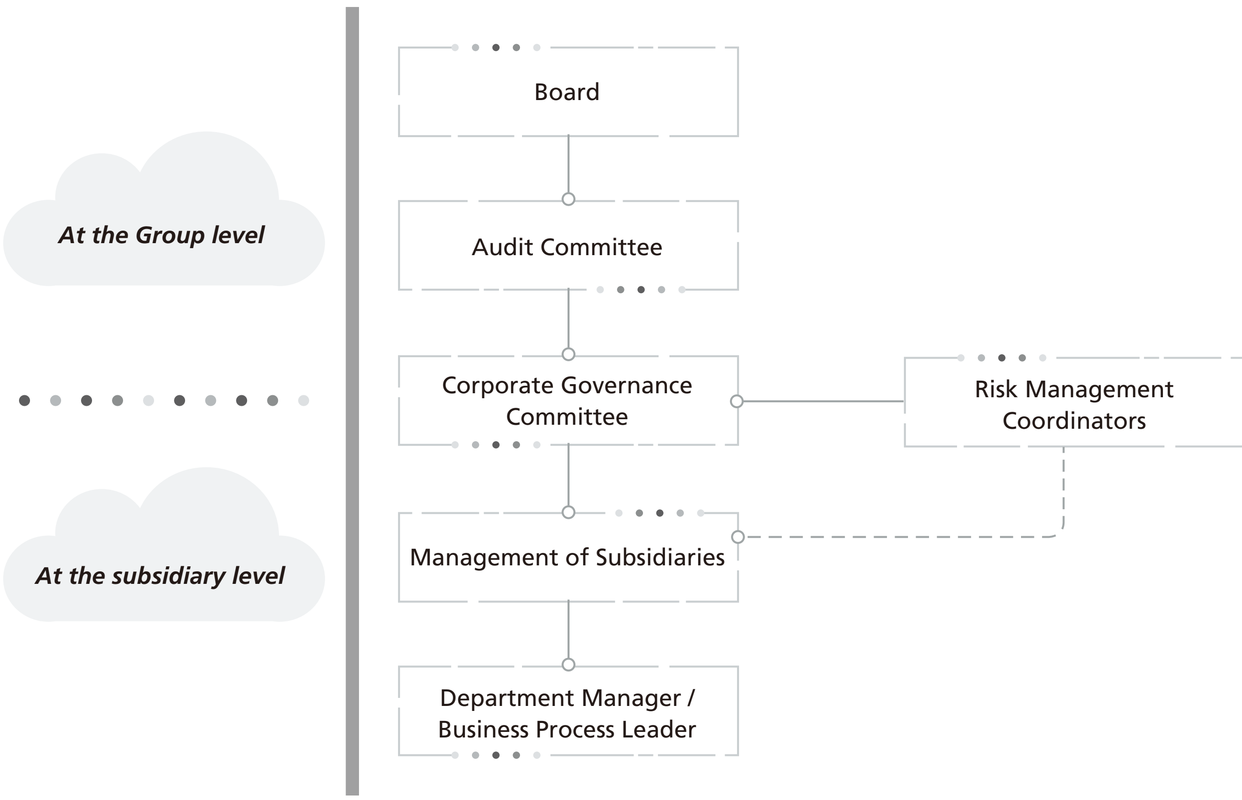
Risk Management and Internal Control

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 2018.

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.
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.

Role	Major Responsibilities
Management of Subsidiaries	• Take ultimate responsibility for risk assessment of their own business entity; • Ensure the business entity engages in risk assessment in compliance with the risk assessment manual prepared by the Group; • Review and approve risk assessment results; • Review countermeasures for risk exposure, and ensure effective risk management at the subsidiary level; • Oversee the major risks facing the subsidiary and the effectiveness of the relevant risk management measures; and • Allocate resources to risk assessment projects (including funds and human resources).
Department Manager/ Business Process Leader	• Works with the Corporate Governance Committee on regular updates of the list of specific business risks, risk assessment, and other related assignments; • Prepares and implements contingency plans for the relevant specific business risks; takes responsibility for advancing and implementing the specific risk management measures; • Monitors and reports various risks facing specific businesses to the management; and • Processes other work relevant to risk management.

Procedures Used to Identify, Assess and Manage Significant Risks

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

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

- Risk identification – the risks facing the Group shall be identified.

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

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

Internal Audit Function

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

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

With the assistance from the external consulting firm and our in-house auditors, the Board conducted an annual review of the effectiveness of risk management and internal control systems for the year ended 31 December 2018, 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 2018.

Whistleblowing policies

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

Disclosure of inside information

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

Corporate Governance Report

Dividend Policy

The amount of any dividends that we may declare and pay in the future will be subject to the discretion of the Board and will be based upon the Group's earnings, cash flow, financial condition, capital requirements, distributable reserves and any other conditions that the Directors consider relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that the Company may enter into from time to time. The amounts of distributions that any company within the Group has declared and made in the past are not indicative of the dividends that the Company may pay in the future.

In any event and from 2019 onwards, when recommending any dividend payout, the Board will take into account a series of factors, including but not limited to: actual and forecasted financial performance and financial position, forecasted working capital and capital expenditure requirements, future operations and development plans, capital requirements and surpluses, contractual restrictions, shareholders' interests, business strategy and development, overall economic situation as well as other relevant internal and external factors that may have impacts on the Company's financial performance and financial position as considered by the Board. Any amount of dividends we pay will be at the discretion of the Board.

The Board will review the Dividend Policy on a regular basis and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy from time to time. The Dividend Policy shall in no way constitute a legally binding commitment by the Company.

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 2018, 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 2018.

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 2018 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 98 to 189.

The Board resolved to recommend to the shareholders of the Company a final dividend of HKD0.02 (2017: Nil) per share for the year ended 31 December 2018 at the forthcoming annual general meeting of the Company to be held on Friday, 31 May 2019 ("2019 AGM") to the shareholders whose names appear on the register of members of the Company on Thursday, 6 June 2019, and such dividend will be made on Friday, 21 June 2019. The final dividend will amount to approximately HKD16,027,000 (2017: Nil).

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, 31 May 2019 ("2019 AGM"), the register of members of the Company will be closed from Monday, 27 May 2019 to Friday, 31 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2019 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 Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 24 May 2019.

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

Details of material events since the end of the financial year are set out on page 22 under the section headed "Management Discussion and Analysis".

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.

Share Capital

Details of movements in the Company's share capital for the year ended 31 December 2018 are set out in note 20 to the consolidated financial statements.

Shares Issued

During the year, the Company has allotted and issued new shares of HKD0.01 each upon exercise of share options under the 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 2018.

Charitable Donations

During the year, the Group did not have charitable donation (2017: 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 subsection 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

During the year ended 31 December 2018, the Company repurchased 1,602,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD3.19 to HKD3.65 per share on the SEHK. Details of the repurchases are as follows:

Month/Year	Number of shares repurchased	Purchase price per share		Aggregate purchase consideration (excluding expenses)
		Highest	Lowest	
		HKD	HKD	HKD
October 2018	291,000	3.29	3.19	952,390.00
December 2018	1,311,000	3.65	3.39	4,567,190.00
	1,602,000			5,519,580.00

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

Distributable Reserves

As at 31 December 2018, the Company's reserves available for distribution to the shareholders amounted to approximately HKD1,179 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 84(1) of the Articles, Mr. Na Qinglin, Mr. Ong Chor Wei and Mr. Deng Xinping shall retire from office as Directors by rotation at the 2019 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 Scheme

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 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 2018	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31 December 2018
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 10)	2.40	500,000	–	–	–	–	500,000
Sub-total				1,500,000	–	–	–	–	1,500,000
Other Employees	10 October 2011	10 October 2012 to 8 April 2020 (Note 2)	1.870	2,000,000	–	–	–	–	2,000,000
	1 June 2012	2 June 2012 to 8 April 2020 (Note 1)	1.910	2,935,000	–	(1,710,000)	–	–	1,225,000
		2 June 2012 to 8 April 2020 (Note 3)		1,031,000	–	(4,000)	–	–	1,027,000
		2 June 2013 to 8 April 2020 (Note 4)		1,698,000	–	(66,000)	–	–	1,632,000
		2 June 2012 to 8 April 2020 (Note 5)		903,000	–	(70,000)	–	–	833,000
	22 April 2013	3 March 2014 to 8 April 2020 (Note 6)	1.680	1,200,000	–	(400,000)	–	–	800,000
	25 September 2013	13 August 2014 to 8 April 2020 (Note 7)	1.652	140,000	–	–	–	–	140,000
	16 October 2013	14 October 2014 to 8 April 2020 (Note 8)	1.628	4,000,000	–	(1,400,000)	–	–	2,600,000
	8 November 2013	8 November 2014 to 8 April 2020 (Note 9)	1.484	3,265,000	–	(301,000)	–	(520,000)	2,444,000
	9 April 2014	28 March 2015 to 8 April 2020 (Note 10)	2.40	372,000	–	(28,000)	–	–	344,000
Total				19,044,000	–	(3,979,000)	–	(520,000)	14,545,000

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 13 August 2014, equally over a period of 5 years.

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

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

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

A total of 19,044,000 share options granted under the Share Option Scheme were remained outstanding on 1 January 2018. During the year ended 31 December 2018, 3,979,000 share options were exercised into 3,979,000 Shares while 520,000 share options lapsed during the reporting period. Save as aforesaid, no further options were granted, cancelled and lapsed during the year ended 31 December 2018.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 14,545,000 shares, representing approximately 1.81% 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 22 to the consolidated financial statements, at no time during the year ended 31 December 2018 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 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 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 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 2019 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 2018.

Directors' Interests in Shares

As at 31 December 2018, the interest or short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) ("SFO")) which were notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short position which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, are set out below:

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

Name of Director	Capacity	Long position/ short position	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Mr. Na Qinglin	Interest of a controlled corporation	Long position	5,232,000 (Note 1)	0.65%
Mr. Deng Xinping	Beneficial owner	Long position	500,000 (Note 2)	0.06%
Mr. Ong Chor Wei	Beneficial owner	Long position	500,000 (Note 2)	0.06%
Mr. Zhao Wei	Beneficial owner	Long position	500,000 (Note 2)	0.06%

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 2018, 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	171,121,237	21.34%
Shenzhen Kaifa Technology Co., Ltd.	Interest of a controlled corporation	Long position	171,121,237 (Note 1)	21.34%
China Electronics Corporation	Interest of a controlled corporation	Long position	171,121,237 (Note 1)	21.34%
O-Net Holdings (BVI) Limited	Beneficial owner	Long position	228,373,383	28.47%
Li Guangxin	Beneficial owner	Long position	40,122,000	5.00%

Note: These 171,121,237 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 171,121,237 Shares under the SFO.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2018.

Major Customers and Suppliers

During the year, the Group's purchase from the five largest suppliers accounted for approximately 36% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 11% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 43% of the Group's total sales and sales to the largest customer included therein accounted for approximately 19% of the Group's total sales.

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

Permitted Indemnity Provision

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

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 37 to the consolidated financial statements.

Non-exempt Continuing Connected Transactions

During the year ended 31 December 2018, the Group has the following continuing connected transactions that are subject to the annual review requirements under Chapter 14A of the Listing Rules:

On 21 August 2018, 昂納信息技術（深圳）有限公司 (O-Net Communications (Shenzhen) Limited) ("O-Net Shenzhen"), a company incorporated in the PRC with limited liability and is a wholly-owned subsidiary of the Company, entered into a supply agreement (the "Supply Agreement") with 紅蝶科技（深圳）有限公司 (Butterfly Technology (Shenzhen) Limited) ("Butterfly Technology"), a company incorporated in the PRC with limited liability which is owned as to 80% by Mr. Na Qinglin ("Mr. Na"), the Chairman, Chief Executive Officer and executive Director of the Company, for a term of three years commencing with retrospective effect from 1 January 2018 and expiring on 31 December 2020 regarding the supply of the subcomponents, components, materials, article or goods, mainly for lens and surface mount technology (the "Relevant Products") by O-Net Shenzhen to Butterfly Technology.

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

The annual cap under the Supply Agreement for the financial year ended 31 December 2018 is RMB10,000,000.

For the year ended 31 December 2018, the aggregate amount received/receivable from Butterfly Technology amounted to approximately HKD2,133,000.

Directors' Report

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 2018 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 64 to 80 of this annual report.

Auditors

A resolution will be submitted to the 2019 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, 19 March 2019

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 98 to 189, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, 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.

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 assessment

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment	
Refer to Note 4 and Note 9(a) to the consolidated financial statements, as at 31 December 2018, 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 2.10. 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 businesses. 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 control by which management prepared its cash flow forecast of the business associated with the goodwill under corresponding cash generating unit. – We used our internal valuation specialists to assist us in evaluating the appropriateness of the value-in-use calculation methodology and key assumptions adopted by management. – We tested the mathematical accuracy of the underlying value-in-use calculation. – We evaluated the historical accuracy of the plan and forecast by 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 evaluated the sensitivity analysis of the key assumptions adopted by management, including the discount rate and revenue growth rate to consider whether the changes in these assumptions will result in different position. 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 Shin Wai Kit, Ricky.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 March 2019

Consolidated Balance Sheet

	Note	As at 31 December 2018 HKD'000	2017 HKD'000
ASSETS			
Non-current assets			
Land use right	6	**23,120**	24,865
Property, plant and equipment	7	**957,831**	916,020
Intangible assets	9	**90,423**	82,648
Investments accounted for using equity method	13	**31,119**	2,497
Deferred income tax assets	27	**698**	2,050
Financial assets at fair value through other comprehensive income	11	**1,656**	–
Available-for-sale financial assets	11	**–**	12,272
Derivative financial instruments		**97**	97
Other non-current receivables	16	**126,832**	73,213
Other non-current assets	8	**157,154**	209,247
		1,388,930	1,322,909
Current assets			
Inventories	14	**501,025**	377,471
Contract assets	15	**27,180**	–
Trade and other receivables	16	**865,885**	975,048
Other current assets	17	**4,186**	1,552
Financial assets at fair value through profit or loss	18	**24,891**	18,816
Pledged bank deposits	19	**65,672**	84,851
Term deposits with initial term of over three months	19	**–**	2,492
Cash and cash equivalents	19	**341,591**	320,749
		1,830,430	1,780,979
Total assets		**3,219,360**	3,103,888
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	20	**8,020**	7,985
Share premium	20	**1,105,589**	1,100,025
Treasury shares	20	**(60,847)**	(74,927)
Other reserves	21	**56,918**	120,442
Retained earnings	23	**1,139,778**	877,986
		2,249,458	2,031,511
Non-controlling interests		**(1,994)**	1,584
Total equity		**2,247,464**	2,033,095

	Note	As at 31 December 2018 HKD'000	2017 HKD'000
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	*27*	**11,953**	2,498
Deferred government grants	*24*	**11,676**	15,107
		23,629	17,605
Current liabilities			
Trade and other payables	*25*	**428,750**	366,769
Contract liabilities	*15*	**9,997**	–
Current income tax liabilities		**21,750**	32,752
Borrowings	*26*	**487,770**	653,667
		948,267	1,053,188
Total liabilities		**971,896**	1,070,793
Total equity and liabilities		**3,219,360**	3,103,888

The notes on pages 105 to 189 are an integral part of these consolidated financial statements.

The financial statements on pages 98 to 189 were approved by the Board of Directors on 19 March 2019 and were signed on its behalf.

Na Qinglin
Director

Chen Zhujiang
Director

Consolidated Statement of Profit or Loss

	Note	Year ended 31 December 2018 HKD'000	2017 HKD'000
Revenue	5	**2,516,422**	2,035,085
Cost of sales	29	**(1,728,430)**	(1,308,612)
Gross profit		**787,992**	726,473
Other gains – net	28	**64,213**	30,420
Selling and marketing costs	29	**(78,975)**	(76,152)
Research and development expenses	29	**(247,552)**	(230,820)
Administrative expenses	29	**(215,634)**	(177,126)
Net impairment losses on financial and contract assets	29	**(676)**	–
Operating profit		**309,368**	272,795
Finance income	31	**6,194**	2,113
Finance expenses	31	**(32,399)**	(25,963)
Finance expenses – net	31	**(26,205)**	(23,850)
Share of losses of investments accounted for using equity method	13	**(1,054)**	(3)
Profit before income tax		**282,109**	248,942
Income tax expenses	32	**(23,895)**	(43,110)
Profit for the year		**258,214**	205,832
Profit attributable to:			
Owners of the Company		**261,792**	208,867
Non-controlling interests		**(3,578)**	(3,035)
		258,214	205,832
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
Basic	34	**0.35**	0.28
Diluted	34	**0.34**	0.27

The notes on pages 105 to 189 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2018	2017
	HKD'000	HKD'000
Profit for the year	**258,214**	205,832
Other comprehensive income		
Items that may be reclassified to profit or loss		
Transfer of reserves to income statement upon disposal of a subsidiary	**–**	(2)
Currency translation differences	**(84,839)**	104,164
Items that will not be reclassified to profit or loss		
Changes in the fair value of equity investments at fair value through other comprehensive income	**(3,024)**	–
Other comprehensive (loss)/income for the year	**(87,863)**	104,162
Total comprehensive income for the year	**170,351**	309,994
Attributable to:		
– Owners of the Company	**173,929**	312,721
– Non-controlling interests	**(3,578)**	(2,727)
Total comprehensive income for the year	**170,351**	309,994

The notes on pages 105 to 189 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company							
	Share capital (Note 20) HKD'000	Share premium (Note 20) HKD'000	Treasury shares (Note 20) HKD'000	Other reserves (Note 21) HKD'000	Retained earnings (Note 23) HKD'000	Total HKD'000	Non-controlling interests HKD'000	Total equity HKD'000
Balance at 1 January 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

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company							
	Share capital (Note 20) HKD'000	Share premium (Note 20) HKD'000	Treasury shares (Note 20) HKD'000	Other reserves (Note 21) HKD'000	Retained earnings (Note 23) HKD'000	Total HKD'000	Non-controlling interests HKD'000	Total equity HKD'000
Balance at 1 January 2018	7,985	1,100,025	(74,927)	120,442	877,986	2,031,511	1,584	2,033,095
Comprehensive income								
Profit for the year	–	–	–	–	261,792	261,792	(3,578)	258,214
Other comprehensive income								
Currency translation differences	–	–	–	(84,839)	–	(84,839)	–	(84,839)
Changes in the fair value of equity investments at fair value through other comprehensive income	–	–	–	(3,024)	–	(3,024)	–	(3,024)
Total comprehensive income	–	–	–	(87,863)	261,792	173,929	(3,578)	170,351
Transactions with owners in their capacity as owners								
Share option scheme – value of services (Note 29)	–	–	–	(140)	–	(140)	–	(140)
Share award schemes – value of services (Note 29)	–	–	–	42,694	–	42,694	–	42,694
Share award schemes – vesting of awarded shares	–	–	18,215	(18,215)	–	–	–	–
Repurchase of shares	(4)	(1,394)	(4,135)	–	–	(5,533)	–	(5,533)
Exercise of share options	39	6,958	–	–	–	6,997	–	6,997
Balance at 31 December 2018	8,020	1,105,589	(60,847)	56,918	1,139,778	2,249,458	(1,994)	2,247,464

The notes on pages 105 to 189 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2018 HKD'000	2017 HKD'000
Cash flows used in operating activities			
Cash generated from operating activities	*35*	**365,144**	17,173
Interest paid		**(29,741)**	(17,811)
Tax refund		**3,181**	2,864
Income tax paid		**(28,835)**	(22,573)
Net cash generated from/(used in) operating activities		**309,749**	(20,347)
Cash flows used in investing activities			
Pledged bank deposits		**–**	139,544
Proceeds from disposal of a subsidiary		**–**	(2,776)
Payment for investment in an associate		**(23,400)**	–
Payment for setting up a joint venture		**–**	(2,500)
Purchases of property, plant and equipment and payments for construction-in-progress		**(160,576)**	(246,475)
Purchase of intangible assets		**(700)**	(5,901)
Proceeds from government grant related to property, plant and equipment	*24*	**2,365**	2,871
Capital expenditure for capitalised development costs		**(20,858)**	(77)
Interest received		**4,213**	5,961
Proceeds from disposal of fixed assets and intangible assets		**1,394**	1,557
Decrease of term deposits with initial term of over three months	*19*	**2,492**	7,534
Payments for financial assets at fair value through profit or loss	*18*	**(7,483)**	–
Proceeds from disposal of available-for-sale financial assets	*11*	**–**	3,019
Prepayment for equity investment	*8*	**–**	(71,925)
Net cash used in investing activities		**(202,553)**	(169,168)
Cash flows from financing activities			
Proceed from borrowings		**1,050,086**	893,391
Borrowings repayments		**(1,196,525)**	(977,859)
Pledged bank deposits	*19*	**70,352**	129,974
Proceeds from issuance of new shares		**–**	262,165
Proceeds from exercise of share options		**6,997**	12,930
Payments for shares bought back		**(5,533)**	–
Net cash (used in)/generated from financing activities		**(74,623)**	320,601
Net increase in cash and cash equivalents		**32,573**	131,086
Cash and cash equivalents at the beginning of the year		**320,749**	169,312
Exchange difference		**(11,731)**	20,351
Cash and cash equivalents at the end of the year		**341,591**	320,749

The notes on pages 105 to 189 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General Information

General Information

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

The Company and its subsidiaries (the "Group") are principally engaged in the design, manufacturing and sale of optical networking subcomponents, components, modules, and subsystem used in high-speed telecommunications and data communications.

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 19 March 2019.

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 financial assets at fair value through profit or loss ("FVPL"), and financial assets at fair value through other comprehensive income ("FVOCI"), 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.

2.2 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 2018:

- HKFRS 9 *Financial instruments*
- HKFRS 15 *Revenue from Contracts with Customers*
- Classification and Measurements of Share-based Payment Transactions – Amendments to HKFRS 2

2 Summary of Significant Accounting Policies (Continued)

2.2 Changes in accounting policy and disclosures (Continued)

(a) New and amended standards adopted by the Group (Continued)

- Annual Improvements 2014–2016 cycle
- Transfer to Investment Property-Amendments to HKAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group had to change its accounting policies and make modified retrospective adjustments as a result of adopting HKFRS 9 and HKFRS 15. The impact of the adoption of these two standards are disclosed in Note 2.2(c) and the new accounting policies adopted are set out in Note 2.12 and Note 2.25 below. Most of the other amendments listed above did not have significant impact on the operating results and financial position for the year ended 31 December 2018.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 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.

		Effective for annual periods beginning on or after
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The effective date has now been deferred
HKFRS 16	Leases	1 January 2019
HK (IFRIC)- Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Annual Improvements projects	Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a business	1 January 2020
Conceptual Framework for Financial Reporting 2018		1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021

2 Summary of Significant Accounting Policies (Continued)

2.2 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

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 HKD83,293,000 (Note 36). The Group estimates that approximately 1% of these relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. 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.

(c) Changes in accounting policies

The Group adopted HKFRS 9 and HKFRS 15 from 1 January 2018, which result in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements.

In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated. As a consequence, any adjustments to carrying amounts of financial assets or liabilities are recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings. Provisions for impairment have not been restated in the comparative period as well.

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

2 Summary of Significant Accounting Policies (Continued)

2.2 Changes in accounting policy and disclosures (Continued)

(c) Changes in accounting policies (Continued)

Impact on the financial statements

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been presented. The adjustments are explained in more detail as below.

Consolidated balance sheet (extract)	As at 31 December 2017 As originally presented HKD'000	HKFRS 9 HKD'000	HKFRS 15 HKD'000	As at 1 January 2018 Restated HKD'000
Available-for-sale financial assets ("AFS")	12,272	(12,272)	–	–
Financial assets at FVOCI	–	4,680	–	4,680
Financial assets at FVPL	–	7,592	–	7,592
Contract liabilities	–	–	9,051	9,051
Trade and other payables	366,769	–	(9,051)	357,718

HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 Financial Instruments ("HKAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 Financial Instruments — Disclosures.

There is no impact on the Group's retained earnings and reserves due to the classification and measurement of financial instruments as at 1 January 2018.

2 Summary of Significant Accounting Policies (Continued)

2.2 Changes in accounting policy and disclosures (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 9 Financial Instruments (Continued)

(i) Classification and measurement

The Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018	AFS HKD'000	Financial assets at FVOCI HKD'000	Financial assets at FVPL HKD'000
Closing balance 31 December 2017 – HKAS 39	12,272	–	–
Reclassify unlisted equity securities from AFS to financial assets at FVOCI	(4,680)	4,680	–
Reclassify unlisted equity securities from AFS to financial assets at FVPL	(7,592)	–	7,592
Opening balance 1 January 2018 – HKFRS 9	–	4,680	7,592

– Reclassification from AFS to financial assets at FVOCI for unlisted equity securities

The Group elected to present in other comprehensive income changes in the fair value of certain its equity investments in unlisted securities previously classified as AFS, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, equity interests in unlisted companies with fair value of HKD4,680,000 were reclassified from AFS to financial assets at FVOCI on 1 January 2018.

– Reclassification from AFS to financial assets at FVPL for unlisted equity securities

Certain investments in unlisted securities were reclassified from AFS to financial assets at FVPL (HKD7,592,000 as at 1 January 2018). They do not meet the HKFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

– Financial liabilities

There is 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.

2 Summary of Significant Accounting Policies (Continued)

2.2 Changes in accounting policy and disclosures (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 9 Financial Instruments (Continued)

i) Classification and measurement (Continued)

– Reclassifications of financial instruments on adoption of HKFRS 9

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		Carrying amount		
	Original (HKAS 39)	New (HKFRS 9)	Original HKD'000	New HKD'000	Difference HKD'000
Non-current financial assets					
Equity securities	AFS	Financial assets at FVOCI	4,680	4,680	–
Equity securities	AFS	Financial assets at FVPL	7,592	7,592	–
Derivatives financial instruments	Financial assets at FVPL	Financial assets at FVPL	97	97	–
Current financial assets					
Trade and other receivables	Amortised cost	Amortised cost	975,048	975,048	–
Financial assets at FVPL	Financial assets at FVPL	Financial assets at FVPL	18,816	18,816	–
Cash and cash equivalents	Amortised cost	Amortised cost	320,749	320,749	–
Term deposits with initial term of over three months	Amortised cost	Amortised cost	2,492	2,492	–
Pledged bank deposits	Amortised cost	Amortised cost	84,851	84,851	–

2 Summary of Significant Accounting Policies (Continued)

2.2 Changes in accounting policy and disclosures (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 9 Financial Instruments (Continued)

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model.

- Trade receivables, contract assets and bills receivable
- Other receivables

Trade receivables and contract assets

The Group applies the HKFRS 9 simplified approach to measure expected credit losses ("ECL") which uses a lifetime expected loss allowance for all trade receivables, contract assets and bills receivable. The restatement of the loss allowance on transition to HKFRS 9 on 1 January 2018 was immaterial. The loss allowance increased from HKD752,000 (as at 1 January 2018) to HKD1,046,000 (as at 31 December 2018) for trade receivables, contract assets and bills receivable.

Other receivables

The Group applies the HKFRS 9 three-stage approach to measure ECL. The other receivables are performing with either low credit risk or have not had significant increase in credit risk since initial recognition.

HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers on 1 January 2018. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a five-step approach:(i) identify the contract(s) with a customer; (ii) identify separate performance obligations in a contract; (iii) determine the transaction price; (iv) allocate transaction price to performance obligations; and (v) recognise revenue when performance obligation is satisfied. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The Group assess its role as an agent or principal for each transaction and in an agency arrangement the amounts collected on behalf of the principal are excluded from revenue. The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria have been met for each of the activities, as described below.

2 Summary of Significant Accounting Policies (Continued)

2.2 Changes in accounting policy and disclosures (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

(i) Revenue recognised at a point in time for sale of products

Sales of products are recognised when control of the products has transferred, being when the products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provision have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. The Group does not expect to have any contracts with material consideration where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money. The Group does not recognise warranty service as a separate performance obligation in a single contract as the warranty service is assurance type.

A receivable is recognised when the products are delivered to customers and there is no unfulfilled obligation as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

When the products are delivered to customers and there is no unfulfilled obligation but the right to consideration is not yet unconditional other than the passage of time, a contract asset is recognised.

(ii) Revenue recognised over time for coating business

An entity transfers control of a good over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met: 1) customer simultaneously consumes the benefits as the entity performs, 2) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced or, 3) entity's performance does not create an asset with alternative use and there is an enforceable right to payment for performance to date. Performance of coating business enhances assets that customers control as the assets are enhanced, and revenue generated from coating business is recognised over time.

(iii) Transportation and handling cost

As the transportation and handling activities occur before the customer obtains control of related products, they are not separate performance obligation, therefore, related costs are fulfillment cost which are recognised as assets following the adoption of HKFRS 15. The assets are amortised on a systematic basis that is consistent with the transfer to the customer of the products or service to which the assets relate. Due to the short period of transportation and handling activities, related assets are not material at the balance sheet date. The transportation and handling costs of the Group are charged to the cost of sales for the year ended 31 December 2018.

2 Summary of Significant Accounting Policies (Continued)

2.2 Changes in accounting policy and disclosures (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

(iv) Presentation of assets and liabilities related to contracts with customers

HKFRS 15 Revenue from Contracts with Customers requires the presentation of any unconditional rights to consideration as receivable separately from contract assets. The Group has therefore reclassified its contract assets and contact liabilities upon adoption of HKFRS 15.

- Contract assets recognised when the products are delivered to customers and there is no unfulfilled obligation but the right to consideration is not yet unconditional other than the passage of time;

- Contract liabilities in relation to advance received from customers which were previously included in trade and other payables.

Other than certain reclassification, the adoption of HKFRS 15 did not result in any significant impact to the retained earnings as at 1 January 2018.

2.3 Subsidiaries

2.3.1 Consolidation

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

Business combination

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

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

Notes to the Consolidated Financial Statements

2 Summary of Significant Accounting Policies (Continued)

2.3 Subsidiaries (Continued)

2.3.1 Consolidation (Continued)

Business combination (Continued)

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 HKFRS 9 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.

2.3.2 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 Summary of Significant Accounting Policies (Continued)

2.4 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)

2.5 Joint Arrangements

The Group has applied HKFRS 11 to all joint arrangements. 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.

2.6 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.

2.7 Foreign Currency Translation

(a) Functional and Presentation Currency

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

2 Summary of Significant Accounting Policies (Continued)

2.7 Foreign Currency Translation (Continued)

(b) Transactions and Balances

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

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

Translation differences on non-monetary financial assets and liabilities such as equities held at FVPL are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as investments classified as fair value through other comprehensive income are recognised in other comprehensive income.

(c) Group Companies

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.8 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.

2.9 Property, Plant and Equipment

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

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

Depreciation of property, plant and equipment of all the other entities in the Group is calculated using the straight-line method, while most assets of ITF Technologies Inc., comprising 4% of the Group's total property, plant and equipment, are amortised 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.

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 Summary of Significant Accounting Policies (Continued)

2.10 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) Patent

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

(c) 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 amortised on a straight-line method over their estimated useful lives of 5 years.

2 Summary of Significant Accounting Policies (Continued)

2.10 Intangible Assets (Continued)

(d) 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 amortised 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.

(e) 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 amortisation. Amortisation 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)

2.11 Impairment of Non-financial Assets

Research and development expenditures, and assets that have an indefinite useful life are not subject to amortisation 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.

2.12 Financial Assets

2.12.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

2.12.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 Summary of Significant Accounting Policies (Continued)

2.12 Financial Assets (Continued)

2.12.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.12.4 Impairment

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. For other receivables, the Group applies the HKFRS 9 three stage approach to mesuring ECL, see Note 3.1 for further details.

2 Summary of Significant Accounting Policies (Continued)

2.12 Financial Assets (Continued)

2.12.5 Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 with transitional provisions and has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, the Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period. See Note 2.2 for details about each type of financial asset.

Reclassification

The Group could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Group could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or AFS categories if the Group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

2 Summary of Significant Accounting Policies (Continued)

2.12 Financial Assets (Continued)

2.12.5 Accounting policies applied until 31 December 2017 (Continued)

Subsequent measurement

The measurement at initial recognition did not change an adoption of HKFRS 9, see description above. Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were subsequently carried at amortised cost using the effective interest method. AFS and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for financial assets at FVPL – in profit or loss within other gains/(loss)
- for AFS that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income
- for other monetary and non-monetary securities classified as AFS – in other comprehensive income

Details on how the fair value of financial instruments is determined are disclosed in Note 3.3.

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and other losses from investment securities.

Classification

The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, and AFS. 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.

2 Summary of Significant Accounting Policies (Continued)

2.12 Financial Assets (Continued)

2.12.5 Accounting policies applied until 31 December 2017 (Continued)

Classification (Continued)

(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 (Note 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.

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 amortised 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 Summary of Significant Accounting Policies (Continued)

2.12 Financial Assets (Continued)

2.12.5 Accounting policies applied until 31 December 2017 (Continued)

Impairment

(a) *Assets carried at amortised 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.

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.

2 Summary of Significant Accounting Policies (Continued)

2.12 Financial Assets (Continued)

2.12.5 Accounting policies applied until 31 December 2017 (Continued)

Impairment (Continued)

(b) *Assets classified as available-for-sale financial assets (Continued)*

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 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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 products 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 products sold or services performed in the ordinary course of business. They are generally due for settlement within 360 days and therefore are all classified as current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 16 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

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 Summary of Significant Accounting Policies (Continued)

2.17 Share Capital

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

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

2.18 Treasury Shares

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

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

2.19 Trade Payables

Trade payables are obligations to pay for products 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 amortised 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 amortised 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 amortised over the period of the facility to which it relates.

2 Summary of Significant Accounting Policies (Continued)

2.20 Borrowings (Continued)

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

2.21 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.

2 Summary of Significant Accounting Policies (Continued)

2.22 Current and Deferred Income Tax (Continued)

(b) Deferred income tax

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

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

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

(c) Offsetting

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

2.23 Employee Benefits

(a) Pension Obligations

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.23 Employee Benefits (Continued)

(b) Share-based compensation benefits

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

(c) Employee Leave Entitlements

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

2.24 Share-based Payments

(a) Equity-settled share-based payment transactions

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

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

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

(iii) including the impact of any non-vesting conditions.

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.

2 Summary of Significant Accounting Policies (Continued)

2.24 Share-based Payments (Continued)

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

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

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

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

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

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

(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 Summary of Significant Accounting Policies (Continued)

2.25 Revenue recognition

(a) Revenue recognised at a point in time for sale of products

Sales of products are recognised when control of the products has transferred, being when the products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provision have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. The Group does not expect to have any contracts with material consideration where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money. The Group does not recognise warranty service as a separate performance obligation in a single contract as the warranty service is assurance type.

A receivable is recognised when the products are delivered to customers and there is no unfulfilled obligation as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

When the products are delivered to customers and there is no unfulfilled obligation but the right to consideration is not yet unconditional other than the passage of time, a contract asset is recognised.

(b) Revenue recognised over time for coating business

An entity transfers control of a good over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met: 1) customer simultaneously consumes the benefits as the entity performs, 2) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced or, 3) entity's performance does not create an asset with alternative use and there is an enforceable right to payment for performance to date. Perfomance of coating business enhances assets that customers control as the assets are enhanced, and revenue generated from coating business is recognised over time.

2 Summary of Significant Accounting Policies (Continued)

2.26 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares

by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.27 Dividend income

Dividends are received from financial assets measured at FVPL and at FVOCI (2017 – FVPL and AFS). Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

2.28 Operating Leases

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

2 Summary of Significant Accounting Policies (Continued)

2.29 Government Grants

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

Government grants relating to costs are deferred and recognized in the consolidated 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.

2.30 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.

2.31 Interest Income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets.

Interest income on financial assets at amortised cost and financial assets at FVOCI (2017 – AFS, held-to-maturity investments and loans and receivables) calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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), CAD, 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 and CAD against RMB. The Group currently does not have a foreign currency hedging policy. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

At 31 December 2018, if USD had weakened/strengthened by 5% against RMB with all other variables held constant, profit before tax for the year would have been HKD30,084,000(2017: HKD21,554,000) 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.

At 31 December 2018, if CAD had weakened/strengthened by 5% against RMB with all other variables held constant, profit before tax for the year would have been HKD170,000(2017: HKD812,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of CAD-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.

3 Financial Risk Management (Continued)

3.1 Financial Risk Factor (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

As at 31 December 2018, except for the term deposits and pledged bank deposits of HKD65,672,000(2017: HKD87,343,000), which were held at fixed interest rate of 0.81% per annum (2017: 1.29% 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 0.06% to 0.30% per annum (2017: 0.01% to 0.35%). Borrowings at variable rates at 2.49% to 6.13% (2017: 2.06% 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, trade and other receivables and contract assets.

(i) Risk management

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

For trade and other receivables and contract assets, the Group has policies in place to ensure that sale of products 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, trade and other receivables and contract assets represent the Group's maximum exposure to credit risk in relation to financial assets.

3 Financial Risk Management (Continued)

3.1 Financial Risk Factor (Continued)

(b) Credit Risk (Continued)

(ii) Impairment of financial assets

Trade receivables, contract assets, bills receivable and other receivables are subject to the expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and bills receivable. For other receivables, the Group involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes.

Impairment of trade receivables, contract assets and bills receivable

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and bills receivable.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and ages. Since the contract assets have substantially the same risk characteristics as the trade receivables for the same types of contracts, the Group has therefore concluded that the expected loss rates for trade receivables are reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2018 and 1 January 2018 respectively. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

3 Financial Risk Management (Continued)

3.1 Financial Risk Factor (Continued)

(b) Credit Risk (Continued)

(ii) Impairment of financial assets (Continued)

Impairment of trade receivables, contract assets and bills receivable (Continued)

The loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9) was determined as follows for trade receivables and contract assets (the ageing for trade receivables was based on invoice date):

31 December 2018	Within 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	Over 365 days	Total
Expected loss rate	0.04%	0.06%	0.08%	0.15%	3.07%	26.05%	
Gross carrying amount (HKD'000)							
– Trade receivables	312,916	180,922	133,089	58,893	4,525	1,835	692,180
– Contract assets	27,180	–	–	–	–	–	27,180
	340,096	180,922	133,089	58,893	4,525	1,835	719,360
Loss allowance (HKD'000)	132	105	102	90	139	478	1,046

01 January 2018	Within 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	Over 365 days	Total
Expected loss rate	0.04%	0.06%	0.08%	0.15%	1.07%	6.25%	
Gross carrying amount (HKD'000)							
– Trade receivables	267,158	192,290	165,609	60,589	21,554	1,241	708,441
Loss allowance (HKD'000)	113	111	127	92	231	78	752

Bills receivable mainly represent bank acceptance bills which were issued by reputable financial institutions and with insignificant credit risk.

The group is exposed to credit risk if counterparties fail to make payments as invoices fall due beyond credit terms.

Trade receivables, contract assets and bills receivable are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

3 Financial Risk Management (Continued)

3.1 Financial Risk Factor (Continued)

(b) Credit Risk (Continued)

(ii) Impairment of financial assets (Continued)

Impairment of other receivables

The Group applies the HKFRS 9 three-stage approach to measure ECL. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss. The directors believe that the credit risk of the other receivables is insignificant, and there is no significant increase of credit risk since initial recognition, therefore related loss allowance limited to 12 months ECL is immaterial.

The closing loss allowances for trade and other receivables and contract assets as at 31 December 2018 reconcile to the opening loss allowances as follows:

	HKD'000
31 December 2017 – calculated under HKAS 39	752
Amounts restated through opening retained earnings	–
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	752
Increase in loan loss allowance recognised in profit or loss during the year	676
Receivables written off during the year as uncollectible	(374)
Translation difference	(8)
At 31 December 2018	1,046

Previous accounting policy for impairment of trade receivables

For trade and other receivables, the Group has policies in place to ensure that sale of products 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.

3 Financial Risk Management (Continued)

3.1 Financial Risk Factor (Continued)

(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 2018	
Borrowings (including interests)	**499,883**
Trade and other payables excluding statutory liabilities and advance from customers	**348,368**
	848,251
At 31 December 2017	
Borrowings (including interests)	654,953
Trade and other payables excluding statutory liabilities and advance from customers	292,812
	947,765

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 HKD146,203,000 as at 31 December 2018 (2017: HKD332,918,000).

The Group's debt-to-equity ratio is 6.5% at 31 December 2018 (2017: 16.4%).

3 Financial Risk Management (Continued)

3.2 Capital Management (Continued)

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 2018.

	Level 1 HKD'000	**Level 2 HKD'000**	**Level 3 HKD'000**	**Total HKD'000**
Assets				
Derivative financial instruments				
– call options for equity investments	**–**	**–**	**97**	**97**
Financial assets at FVPL (Note 18)	**–**	**–**	**24,891**	**24,891**
Financial assets at FVOCI (Note 11)	**–**	**–**	**1,656**	**1,656**

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 FVPL				
– Derivative financial instruments				
– call options for equity investments	–	–	97	97
Financial assets at FVPL (Note 18)	–	–	18,816	18,816

3 Financial Risk Management (Continued)

3.3 Fair Value Estimation

The following table presents the changes in level 3 instruments for the years ended 31 December 2018 and 2017.

	Financial assets at fair value	
	2018	2017
	HKD'000	HKD'000
At 1 January	**18,913**	21,509
Reclassify unlisted equity securities from AFS to financial assets at FVOCI under HKFRS 9	**4,680**	–
Addition		
– Highly liquid investments	**7,483**	–
Fair value change		
– Highly liquid investments	**–**	1
– Financial assets at FVPL	**(1,408)**	422
– Financial assets at FVOCI	**(3,024)**	–
Disposal	**–**	(3,019)
At 31 December	**26,644**	18,913
Changes in unrealized (losses)/gain for the year included in profit or loss at the end of the year	**(1,408)**	422

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

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 2.10. 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.

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 products were made to external customers for the year ended 31 December 2018 (2017: Same).

5 Segment Information (Continued)

(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:

	2018 HKD'000	2017 HKD'000
The PRC	**953,257**	965,032
Europe	**664,662**	429,135
North America	**447,614**	326,299
Other Asian countries excluding the PRC	**450,889**	314,619
	2,516,422	2,035,085

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 31 December 2018 and 2017 are as follows:

	2018 HKD'000	2017 HKD'000
The PRC	**971,375**	940,068
Hong Kong	**225,986**	204,426
North America	**101,775**	90,783
	1,299,136	1,235,277

(c) Revenue of approximately HKD488,083,000 (2017: HKD229,692,000) and trade receivables of approximately HKD90,673,000 (2017: HKD95,144,000) are derived from one (2017: one) external customer, which are more than 10% of the Group's total revenue and total trade receivables.

During the year ended 31 December 2018, revenue of approximately HKD851,310,000 (2017: HKD467,579,000) was derived from three customers, which comprised 34% (2017: 25%) 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.

(d) For the year ended 31 December 2018, revenue recognised at a point in time for sale of products amounted to HKD2,421,584,000, and revenue recognised over time for coating business amounted to HKD94,838,000.

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:

	2018 HKD'000	2017 HKD'000
Outside of Hong Kong		
– Lease of 50 years	**23,120**	24,865

	2,018 HKD'000	2,017 HKD'000
At 1 January		
Opening net book amount	**24,865**	23,826
Amortisation charge	**(623)**	(609)
Translation difference	**(1,122)**	1,648
Closing net book amount	**23,120**	24,865

Amortisation 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 2018 was 38 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 2017						
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)
Disposals 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**
Year ended 31 December 2018						
Opening net book amount	**523,846**	**196,581**	**324**	**131,221**	**64,048**	**916,020**
Transfers	**31,825**	**1,319**	**–**	**95**	**(33,239)**	**–**
Additions	**–**	**58,071**	**–**	**96,025**	**25,416**	**179,512**
Disposals	**–**	**(174)**	**–**	**(346)**	**–**	**(520)**
Depreciation charge	**(13,290)**	**(46,550)**	**(81)**	**(40,535)**	**–**	**(100,456)**
Currency translation differences	**(23,625)**	**(6,098)**	**(12)**	**(4,044)**	**(2,946)**	**(36,725)**
Closing net book amount	**518,756**	**203,149**	**231**	**182,416**	**53,279**	**957,831**
At 31 December 2018						
Cost	**574,276**	**345,913**	**1,637**	**456,763**	**53,279**	**1,431,868**
Accumulated depreciation	**(55,520)**	**(142,764)**	**(1,406)**	**(274,347)**	**–**	**(474,037)**
Net book amount	**518,756**	**203,149**	**231**	**182,416**	**53,279**	**957,831**

7 Property, Plant and Equipment (Continued)

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

	2018 HKD'000	2017 HKD'000
Cost of sales	**74,495**	44,898
Selling and marketing costs	**234**	211
Research and development expenses	**19,768**	15,812
Administrative expenses	**5,959**	8,235
	100,456	69,156

(b) As at 31 December 2018, construction in progress mainly comprised costs incurred for a new production plant under construction, which is located in Pingshan, Shenzhen, the PRC.

(c) As at 31 December 2018, the Group is in the process of applying the building ownership certificate of certain buildings with the aggregated carrying amounts amounted to HKD518,756,000 (31 December 2017: HKD523,846,000).

8 Other Non-Current Assets

	2018 HKD'000	2017 HKD'000
Prepayment for purchase of property, plant and equipment	**1,008**	20,869
Prepayment for equity investment (a)	**155,095**	188,253
Others	**1,051**	125
	157,154	209,247

(a) The Group entered into the Sale and Purchase Agreement with Advance Photonics Investment Limited("API") on 21 April 2017, and the supplementary agreement dated 18 July 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. According to the Sale and Purchase Agreement, the Group paid a deposit amounting to HKD155,095,000 to API's sole shareholder (Notes 16(d) and 38). During the year, the sum of HKD33,157,000 was reclassified from prepayment for equity investment to other receivables as that amount will become shareholder's loan upon completion of the acquisition. The completion of the acquisition is subject to certain prerequisites which have not been satisfied as at 31 December 2018, as confirmed by the seller.

9 Intangible Assets

	Goodwill (a) HKD'000	Development expenditure HKD'000	Patent HKD'000	Computer Software HKD'000	Customer Relationships HKD'000	Order Backlog HKD'000	Total HKD'000
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
Amortisation 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 amortisation 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	–	82,648

	Goodwill (a) HKD'000	Development expenditure HKD'000	Patent HKD'000	Computer Software HKD'000	Customer Relationships HKD'000	Total HKD'000
Year ended 31 December 2018						
Opening net book amount	29,924	35,215	1,572	8,121	7,816	82,648
Addition	–	20,858	–	700	–	21,558
Amortisation charge	–	(9,243)	(243)	(2,126)	(1,203)	(12,815)
Translation difference	–	(788)	3	(183)	–	(968)
Closing net book amount	29,924	46,042	1,332	6,512	6,613	90,423
At 31 December 2018						
Cost	29,924	74,611	4,015	13,719	9,019	131,288
Accumulated amortisation and impairment	–	(28,569)	(2,683)	(7,207)	(2,406)	(40,865)
Net book amount	29,924	46,042	1,332	6,512	6,613	90,423

The amortisation charge has mainly been included in cost of sales, selling and marketing costs, administrative expenses and research and development expenses in the consolidated statement of profit or loss (2017: Same).

9 Intangible Assets (Continued)

(a) Impairment tests for goodwill

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

	2018 HKD'000	2017 HKD'000
At 1 January	**29,924**	29,924
Addition	**–**	–
At 31 December	**29,924**	29,924

Goodwill is monitored by the management at the group's optical networking business which is not larger than an operating segment determined under with HKFRS 8.

The recoverable amount of CGU 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 rate 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:

	2018 Optical networking business	2017 Optical networking business
Growth rate	**3%**	3%
Discount rate	**15%**	16%

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 rate used is pre-tax and reflects 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 2018.

(b) Research and development costs amounting to HKD268,410,000 were incurred for the year ended 31 December 2018 (2017: HKD230,897,000), of which cost of HKD20,858,000 (2017: HKD77,000) relating to development of design and testing of identifiable and unique optical products were capitalised, with remaining balance being charged as expenses in the consolidated statement of profit or loss.

10 Financial Instruments by Category

Financial assets	Note	2018 HK'000	2017 HK'000
Financial assets at amortised cost			
– Trade and other receivables	16	**865,885**	975,048
– Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months	19	**407,263**	408,092
Financial assets at FVPL			
– Financial assets at FVPL	18	**24,891**	18,816
– Derivative financial instruments		**97**	97
Financial assets at FVOCI	11	**1,656**	–
AFS	11	**–**	12,272
		1,299,792	1,414,325

	2018 HK'000	2017 HK'000
Financial liabilities at amortised cost		
Borrowings (Note 26)	**487,770**	653,667
Trade and other payables excluding non-financial liabilities (Note 25)	**348,368**	292,812
	836,138	946,479

11 Financial assets at fair value through other comprehensive income

(i) Classification of financial assets at fair value through other comprehensive income

Financial assets at FVOCI comprise equity securities which are not held for trading, and the Group has irrevocably elected at initial recognition to recognise in this category. The Group considers this classification to be more relevant.

(ii) Equity investments at fair value through other comprehensive income

	2018 **HKD'000**	2017 HKD'000
At 1 January	**4,680**	–
Fair value change	**(3,024)**	–
At 31 December	**1,656**	–

Equity investments at financial assets at FVOCI comprise the following individual investments:

	As at **31 December** **2018** **HKD'000**	As at 31 December 2017 HKD'000
Non-current assets:		
Unlisted equity securities	**1,656**	–

These investments were classified as AFS in 2017, see (v) below. All of these investments were also held in the previous period.

On disposal of these equity investments, any related balance within the financial assets at FVOCI reserve is reclassified to retained earnings.

In the prior period, the Group had designated equity investments as AFS where management intended to hold them for the medium to long-term.

Note 2.2 explains the change of accounting policy and the reclassification of certain equity investments from AFS to financial assets at FVOCI. Note 2.12 sets out the relevant accounting policies.

11 Financial assets at fair value through other comprehensive income (Continued)

(iii) Amounts recognised in other comprehensive income

During the year, the following losses were recognised in other comprehensive income.

	2018 HKD'000	2017 HKD'000
Losses recognised in other comprehensive income (see Note 21; 2017 relating to available-for-sale financial assets, see (v) below)	(3,024)	–

(iv) Fair value, impairment and risk exposure

Information about the methods and assumptions used in determining fair value is provided in Note 3.3.

All of the financial assets at FVOCI are denominated in USD. For an analysis of the sensitivity of the assets to price and interest rate risk refer to Note 3.1.

(v) Financial assets previously classified as available-for-sale financial assets (2017)

	2018 HKD'000	2017 HKD'000
Non-current assets		
Unlisted equity securities	–	12,272

Classification of financial assets as available-for-sale

Investments were designated as available-for-sale financial assets if they did not have fixed maturities and fixed or determinable payments, and management intended to hold them for the medium to long-term.

12 Subsidiaries

The following is a list of the principal subsidiaries at 31 December 2018

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 (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 Automation Technology (Shenzhen) Limited ("O-Net Auto SZ")	10 May 2013	Shenzhen, the PRC,	RMB50,000,000	–	100%	Design, manufacturing and sales of automation products, Shenzhen, the PRC
O-Net Communications (HK) Limited ("O-Net Hong Kong")	25 September 2000	Hong Kong	HKD1,000,000	–	100%	Sales of optical networking products, Hong Kong
ITF Technologies Inc. ("ITF")	25 May 1995	Canada	USD5,000,000	–	100%	Manufacturing and distributing fiber optics components and fiber sensors
O-Net Communications (USA), Inc. ("O-Net USA")	20 August 2012	USA	USD100	–	100%	Research and development centre with major operation in USA
ArtIC Photonics Inc. ("ArtIC") (b)	23 September 2013	Canada	HKD24,180,000	–	45.70%	Design, and development of optical component products, Canada
O-Net Material Technology (Shenzhen) Co. Ltd	31 March 2017	Shenzhen, the PRC,	RMB9,819,621	–	100%	Design, processing and manufacturing of Optoelectronic materials and devices, Shenzhen, the PRC
O-Net Automation Technology (HK) Limited ("O-Net Auto")	27 June 2012	Hong Kong	HKD10,000	–	100%	Investment holding
O-Net Communications Holdings Limited ("O-Net BVI")	06 November 2006	BVI	USD28,991	100%	–	Investment holding
O-Net Automation Technologies Holdings Limited	04 August 2016	BVI	–	–	100%	Investment holding
O-Net Coating and Materials Technologies Holdings Limited	04 August 2016	BVI	–	–	100%	Investment holding
O-Net Coating and Materials Technologies (HK) Limited	22 August 2016	Hong Kong	HKD1	–	100%	Investment holding

12 Subsidiaries (Continued)

(a) Consolidation of structured entity

Due to the implementation of the restricted share award schemes of the Group mentioned in Note 22(b), the Company has also set up a structured entity ("O-Net Share Award Plan Limited"), and its particulars are as follows:

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

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

For the year ended 31 December 2018, the Company contributed nil (2017: 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 rights in ArtIC and it had control over ArtIC according to the shareholders agreement.

13 Investments Accounted for Using Equity Method

The amounts recognized in the balance sheet are as follows:

	2018 HKD'000	2017 HKD'000
Associates (a)	30,792	–
A joint venture (b)	327	2,497
At 31 December	31,119	2,497

(a) Investment in associates

As at 31 December 2018, the Group had interests in the following associates:

Name	Place of incorporation	% of ownership Interests	Principal activities
Innovision FlexTech Corp. ("IFTC")	Taiwan	9.85%	Production and sale of projection screen
InLC Technology Inc.("InLC")	Korea	15.09%	Research and development optical subsystem solution

13 Investments Accounted for Using Equity Method (Continued)

(a) Investment in associates (Continued)

The following table analyses, in aggregate, the movements of the carrying amount of the Group's investments in these associates, and its share of results of these associates.

An analysis of the movements of equity investment in associates is as follows:

	2018 **HKD'000**	2017 HKD'000
At the beginning of the year	**–**	–
Additions	**29,676**	–
Share of profit	**1,116**	–
At the end of the year	**30,792**	–

(b) Investment in a joint venture

	2018 **HKD'000**	2017 HKD'000
At 1 January	**2,497**	–
Share of loss	**(2,170)**	(3)
Addition	**–**	2,500
At 31 December	**327**	2,497

On 2 August 2017, O-Net Coating and Materials Technologies (HK) Limited ("O-Net Coating"), a subsidiary of the Company, entered into an Agreement with OB Technologies (Hong Kong) Limited, formerly known as Butterfly Technologies (Hong Kong) Ltd., Co. ("OB") in relation to the formation of OB Technologies (Shenzhen) Limited, formerly known as O-Net Butterfly Technologies (Shenzhen) Company Limited ("the JV Company" or "OBSZ"). 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

	2018 HKD'000	2017 HKD'000
Cost:		
Raw materials	**286,453**	234,829
Work-in-progress	**97,845**	80,846
Finished goods	**140,587**	82,008
	524,885	397,683
Less: provision for write down of inventories to net realizable values	**(23,860)**	(20,212)
	501,025	377,471

For the year ended 31 December 2018, 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 HKD1,265,026,000 (2017: HKD1,016,100,000).

For the year ended 31 December 2018, the Group provision for write-down of inventories of HKD4,547,000 (2017 the Group wrote back provision for write-down of inventories of HKD323,000).

15 Assets and Liabilities Related to Contracts with Customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	31 December 2018 HKD'000	31 December 2017 HKD'000
Current contract assets	**27,180**	–
Loss allowance	**–**	–
Total contract assets	**27,180**	–
Current contract liabilities – advances from customers	**9,997**	–

15 Assets and Liabilities Related to Contracts with Customers (Continued)

Revenue recognised in relation to contract liabilities

The following tables shows the amount of revenue recognised in the consolidated statement of profit or loss relating to contract liabilities:

	As at 31 December 2018 HKD'000	As at 31 December 2017 HKD'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year		
Sales of products	**6,594**	–

The Group does not disclose information about remaining performance obligations that have original expected duration of one year or less.

16 Trade and Other Receivables

	2018 HKD'000	2017 HKD'000
Trade receivables (a)	**692,019**	708,062
Less: provision for impairment of receivables (b)	**(1,046)**	(752)
Trade receivables – net	**690,973**	707,310
Amounts due from related parties (a) (Note 37(d))	**161**	379
Bills receivable (c)	**86,972**	193,062
Prepayments	**44,660**	30,425
Interest receivables	**611**	940
Other receivables (d)	**169,340**	116,145
	992,717	1,048,261
Less non-current portion: other receivables (d)	**(126,832)**	(73,213)
Current portion	**865,885**	975,048

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. Except for other receivable of Integrated Photonics, Inc. ("IPI"), the Group does not hold any collateral as security.

At 31 December 2018, the fair value of trade and other receivables of the Group approximated their carrying amounts due to the short term nature of the current receivables (2017: Same).

16 Trade and Other Receivables (Continued)

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

	2018 HKD'000	2017 HKD'000
RMB	**429,543**	616,755
USD	**464,120**	405,650
EUR	**80,116**	17,040
CAD	**1,475**	6,209
HKD	**16,189**	467
Others	**1,274**	2,140
	992,717	1,048,261

(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:

	2018 HKD'000	2017 HKD'000
Within 30 days	**312,916**	267,158
31 to 60 days	**180,922**	192,290
61 to 90 days	**133,089**	165,609
91 to 180 days	**58,893**	60,589
181 to 365 days	**4,525**	21,554
Over 365 days	**1,835**	1,241
	692,180	708,441

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

	2018 HKD'000	2017 HKD'000
Past due 1 to 90 days	**141,650**	179,591
Past due 91 to 180 days	**4,741**	8,188
Past due 181 to 365 days	**2,555**	6,001
Past due over 365 days	**1,680**	462
	150,626	194,242

16 Trade and Other Receivables (Continued)

(b) Impairment and risk exposure

Trade receivables and contract assets

The group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The restatement of the loss allowance on transition to HKFRS 9 on 1 January 2018 was immaterial.

The loss allowance increased from HKD752,000 (as at 1 January 2018) to HKD1,046,000 (as at 31 December 2018) for trade receivables and contract assets.

Information about the impairment of trade receivables and the group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1.

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

	2018 **HKD'000**	2017 HKD'000
Within 30 days	**15,552**	12,874
31 to 90 days	**33,989**	98,042
91 to 180 days	**36,768**	78,625
181 days to 365 days	**663**	3,521
	86,972	193,062

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

16 Trade and Other Receivables (Continued)

(d) Other receivables

Included in the other receivable is a balance due from IPI, a third-party supplier of the Group amounting to HKD26,685,000 (2017: HKD28,005,000), 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 be ensured stable supply of products 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 other receivable due from IPI will be repaid in 2019.

The remaining balance amounting to HKD120,500,000 (2017: HKD45,208,000) is the loan provided to 3SP. The Group has agreed to acquire the entire issued shares of 3SP, and such loan will become shareholder's loan upon completion (Notes 8 and 38).

17 Other Current Asset

	2018 HKD'000	2017 HKD'000
Deferred expenses	**4,186**	1,552

18 Financial Assets at Fair Value Through Profit or Loss

	2018 HKD'000	2017 HKD'000
Equity investment with call and put options (a)	**17,408**	18,816
Highly liquid investments	**7,483**	–
	24,891	18,816

Financial assets at FVPL are presented within 'investing activities' in the consolidated statement of cash flows.

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

18 Financial Assets at Fair Value Through Profit or Loss (Continued)

(a) 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 the option acquired in 2015 was disposed. In return, the Group obtained investment in WaveTouch Group (approximately 33% of interests) and a call option to acquire additional 7,000,000 shares in WaveTouch Group ("Revised Call option"). Pursuant to the Share Swap Agreement, the Group has also granted PASINIKA SARL ("PKA"), a third party, a call option ("Call Option") to buy the Group's interest in WaveTouch Group (including the interests and Revised Call Option), at a consideration of a cash of USD3,000,000 or certain interests in Windar Photonics PLC ("Windar"), a UK listed company, with the market value not less than USD2,500,000, or a cash payment of USD1,500,000 and 750,000 shares of Windar. The certain interests in Windar will be satisfied by 1,000,001 to 2,000,000 shares of Windar dependent upon the price of Windar's share. At the same time, PKA granted the Group a put option ("Put Option") to sell the Group's interests in WaveTouch Group (including the interest and Call Option), at a consideration of 1,000,000 Windar shares if the market value of such Windar Shares is not less than USD2,500,000, or up to 2,000,000 Windar shares if the market value of 1,000,000 Windar Shares is less than USD2,500,000. The Call Option and Put Option could be exercised any time during the period from 1 October 2016 to 20 June 2019 (which was originally expired on 30 June 2018 but extended by a mutual agreement between the group and PKA entered during the current year). 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 FVPL. The Group and PKA agreed to extend the agreement to 20 June 2019.

The fair value of the call and put options of WaveTouch Group is estimated with inputs as follows:

	2018	2017
Risk-free rate	**0.75%&2.46%**	0.42% & 1.53%
Expected volatility	**39.41%&29.78%**	40.6% & 44.4%
Expected dividend yield	**0.00%**	0.00%

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

	2018 HKD'000	2017 HKD'000
Cash and cash equivalents	**341,591**	320,749
Term deposits with initial term of over three months	**–**	2,492
Pledged bank deposits (a)	**65,672**	84,851
	407,263	408,092

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

	2018 HKD'000	2017 HKD'000
RMB	**253,734**	237,728
USD	**143,890**	157,871
Others	**9,639**	12,493
	407,263	408,092

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.

20 Share Capital, Share Premium and Treasury Shares

	Number of ordinary shares	Ordinary share capital HKD'000	Share premium HKD'000	Treasury shares HKD'000
At 1 January 2017	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)
Repurchase and cancellation of shares during the year	**(412,000)**	**(4)**	**(1,394)**	**(4,135)**
Exercise of share options	**3,979,000**	**39**	**6,958**	**–**
Share award schemes – vesting of awarded shares	**–**	**–**	**–**	**18,215**
At 31 December 2018	**802,034,240**	**8,020**	**1,105,589**	**(60,847)**

During the year ended 31 December 2018, the Company repurchased and cancelled 412,000 ordinary shares.

During the year ended 31 December 2018, with the awarded shares vested by the employees, the shares granted from the repurchased shares were transferred from treasury shares to other reserve.

21 Other Reserves

	Capital redemption reserve HKD'000	Share-based compensation HKD'000	Capital reserve arising from reorganization HKD'000	Currency translation reserve HKD'000	FVOCI reserve HKD'000	Total HKD'000
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
At 1 January 2018	**1,330**	**158,866**	**(85,421)**	**45,667**	**–**	**120,442**
Share option schemes – value of services	**–**	**(140)**	**–**	**–**	**–**	**(140)**
Share award schemes – value of services	**–**	**42,694**	**–**	**–**	**–**	**42,694**
Share award schemes – vesting of awarded shares	**–**	**(18,215)**	**–**	**–**	**–**	**(18,215)**
Currency translation differences	**–**	**–**	**–**	**(84,839)**	**–**	**(84,839)**
Changes in the fair value of equity investments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**(3,024)**	**(3,024)**
At 31 December 2018	**1,330**	**183,205**	**(85,421)**	**(39,172)**	**(3,024)**	**56,918**

Financial assets at FVOCI

The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in Note 2.12. These changes are recognised in other comprehensive income and accumulated within the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

Available-for-sale financial assets – until 31 December 2017

Changes in the fair value and exchange differences arising on translation of investments that were classified as available-for-sale financial assets (eg equities), were recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts were reclassified to profit or loss when the associated assets are sold or impaired, see accounting policy Note 2.12 for details.

22 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 2018	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.
01 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)	5,717,000	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.
09 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.

22 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 2018	Exercise price	Vesting date
22 April 2013	Tranche 1: 200,000 Tranche 2: 2,350,000 Tranche 3: 350,000 (Total:2,900,000)	800,000	HKD1.680	Tranche 1 (for certain employees): vesting period commences at 12 February 2014, equally over a period of 5 years. Tranche 2 (for certain employees): vesting period commences at 3 March 2014, equally over a period of 5 years. Tranche 3 (for certain employees): vesting period commences at 7 April 2014, equally over a period of 5 years
11 September 2013	Tranches 1, 2, 3, 4 & 5: 400,000 (Total:2,000,000)	–	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)	2,600,000	HKD1.628	Tranches 1, 2, 3, 4 (for certain employees): vesting period commences at 14 October 2014, equally over a period of 4 years.
08 November 2013	Tranches 1, 2, 3, 4 & 5: 2,060,000 (Total:10,300,000)	2,444,000	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.
09 April 2014	Tranches 1, 2, 3, 4 & 5: 374,000 (Total:1,870,000)	844,000	HKD2.40	Tranches 1, 2, 3, 4& 5 (for certain employees): vesting period commences at 28 March 2015, equally over a period of 5 years.
		14,545,000		

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

22 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:

	2018		2017	
	Average exercise price in HKD per share option	Options (thousands)	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**1.78**	**19,044**	1.80	28,099
Forfeited	**1.48**	**(520)**	1.70	(1,974)
Exercised	**1.76**	**(3,979)**	1.83	(7,081)
At 31 December	**1.80**	**14,545**	1.78	19,044

As at 31 December 2018, out of the 14,545,000 outstanding options (2017: 19,044,000 options) 14,311,000 options (2017: 16,699,000 options) were exercisable. 3,979,000 options were exercised in 2018 (2017: 7,081,000 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 2018	Options (thousands)	
		2018	2017
2020	2	**14,545**	19,044

(iv) Fair value of options

No share options were granted during 2018 and 2017. The weighted average fair value of options granted was determined using the Trinomial valuation model. See Note 29 for the total expense recognized in the income statement for share options granted to directors.

22 Share-Based Payments (Continued)

(b) Restricted Share Award Schemes

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

Movements in the number of shares held for the Restricted Share Award Schemes and awarded shares for the year ended 31 December 2018 are as follows:

	2018	2017
At beginning of the year	**31,554,250**	35,878,000
Granted	**16,230,000**	3,300,000
Lapsed	**(1,781,800)**	(1,859,500)
Vested and transferred	**(8,994,000)**	(5,764,250)
At end of the year	**37,008,450**	31,554,250

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 2018 are as follows:

The weighted average fair value of awarded shares granted during the year ended 31 December 2018 was HKD4.10 per share (equivalent to approximately RMB3.55 per share) (2017: HKD4.38 per share (equivalent to approximately RMB3.79 per share)).

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

23 Retained Earnings

	2018 HKD'000	2017 HKD'000
At 1 January	**877,986**	669,119
Profit for the year	**261,792**	208,867
At 31 December	**1,139,778**	877,986

24 Deferred Government Grants

	2018 HKD'000	2017 HKD'000
At 1 January	**15,107**	30,484
Receipt of grant during the year (a)	**2,365**	2,871
Credited to statement of profit or loss	**(5,200)**	(19,679)
Currency translation difference	**(596)**	1,431
At 31 December	**11,676**	15,107

(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 RMB2,000,000 (equivalent to HKD2,365,000) in 2018 (2017: HKD861,000).

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

25 Trade and Other Payables

	2018 HKD'000	2017 HKD'000
Trade payables (a)	**238,616**	234,920
Bills payable (c)	**63,397**	16,971
Accrued expenses	**31,166**	27,996
Accrued staff costs	**66,145**	51,736
Other payables	**15,189**	12,925
Advance from customers	**–**	9,051
Other taxes payable	**14,237**	13,170
	428,750	366,769

At 31 December 2018, the fair value of trade and other payables of the Group approximated their carrying amounts due to their short maturities (2017: Same).

25 Trade and Other Payables (Continued)

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

	2018 HKD'000	2017 HKD'000
Within 30 days	**148,594**	96,548
31 days to 60 days	**41,571**	68,581
61 days to 180 days	**27,222**	55,537
181 days to 365 days	**9,776**	7,607
Over 365 days	**11,453**	6,647
	238,616	234,920

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

	2018 HKD'000	2017 HKD'000
RMB	**278,911**	214,547
USD	**132,418**	134,646
CAD	**14,910**	13,646
HKD	**1,366**	2,462
Others	**1,145**	1,468
	428,750	366,769

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

	2018 HKD'000	2017 HKD'000
Within 30 days	**31,054**	477
31 to 90 days	**10,307**	3,499
91 to 180 days	**22,036**	12,995
	63,397	16,971

26 Borrowing

	2018 HKD'000	2017 HKD'000
Current		
Bank borrowings, secured	**34,238**	254,092
Bank borrowings, unsecured	**453,532**	399,575
	487,770	653,667

Bank borrowings will mature in 2019 and bear average coupons of 4.39% per annum (2017: 3.99% per annum).

The fair value of current borrowings approximates their carrying amount. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 2.12% in 2017 and are within level 2 of the fair value hierarchy.

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

	2018 HKD'000	2017 HKD'000
USD	**39,164**	282,813
RMB	**383,606**	370,854
HKD	**65,000**	–
	487,770	653,667

The Group has the following undrawn borrowing facilities:

	2018 HKD'000	2017 HKD'000
Fixed rate:		
– Expiring within one year	**185,728**	312,795
– Expiring beyond one year	**–**	50,000
	185,728	362,795

The facilities expiring within one year are annual facilities subject to review at various dates during 2018.

27 Deferred Income Tax

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

	2018 HKD'000	2017 HKD'000
Total deferred tax assets	**13,092**	7,052
Set-off of deferred tax liabilities pursuant to set-off provisions	**(12,394)**	(5,002)
Net deferred tax assets	**698**	2,050
Total deferred tax liabilities	**24,347**	7,500
Set-off of deferred tax assets pursuant to set-off provisions	**(12,394)**	(5,002)
Net deferred tax liabilities	**11,953**	2,498

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 amortisation 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 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
At 1 January 2018	**1,471**	**2,606**	**2,267**	**683**	**25**	**–**	**7,052**
Credited/(charged) to the consolidated statement of profit or loss	**1,798**	**556**	**(425)**	**–**	**397**	**4,255**	**6,581**
Translation difference	**(133)**	**(139)**	**(89)**	**(31)**	**–**	**(149)**	**(541)**
At 31 December 2018	**3,136**	**3,023**	**1,753**	**652**	**422**	**4,106**	**13,092**

27 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 HKD21,968,000 (2017: HKD17,670,000) in respect of losses amounting to HKD81,681,000 (2017: HKD67,778,000) that can be carried forward against future taxable income. Losses amounting to HKD1,549,000 (2017: HKD1,549,000), HKD47,668,000 (2017: HKD50,442,000), HKD6,620,000 (2017: nil) expire in 2022, 2037 and 2038 respectively, and HKD25,844,000 (2017: 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 2018, deferred income tax liabilities of approximately HKD111,879,000 (2017: HKD94,731,000) had not been recognized for withholding tax that would be payable on the unremitted earnings of approximately HKD1,119 million (2017: HKD947 million) of the PRC subsidiaries. The directors of the PRC subsidiaries had resolved not to distribute these earnings in the foreseeable future.

Deferred tax liabilities	Depreciation and amortisation of fixed assets and intangible assets HKD'000	Fair value gains HKD'000	Total HKD'000
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
At 1 January 2018	**4,750**	**2,750**	**7,500**
Charged to the consolidated statement of profit or loss	**17,922**	**(230)**	**17,692**
Translation difference	**(845)**	**–**	**(845)**
At 31 December 2018	**21,827**	**2,520**	**24,347**

28 Other Gains – Net

	2018 HKD'000	2017 HKD'000
Government grants (a)	**41,000**	48,753
Rental income	**715**	1,604
Gain on sales of scrapped or surplus raw materials	**3,196**	7,201
Gain/(loss) on disposal of property, plant and equipment – net	**874**	(466)
Loss on disposal of a subsidiary	**–**	(59)
Fair value (loss)/gain on derivative financial instruments	**(2,723)**	422
Net foreign exchange gain/(loss)	**21,373**	(28,607)
Others	**(222)**	1,572
	64,213	30,420

(a) Included in the government grant are amortisation of deferred government grant of HKD5,200,000(2017: HKD17,739,000), the remaining was mainly cash received from the Department of Science and Technology of Guangdong Province and was recognized during the year upon receipt.

29 Expenses by Nature

Expenses included in cost of sales, selling and marketing costs, research and development expenses, administrative expenses and net impairment losses on financial and contract assets are analyzed as follows:

	2018 HKD'000	2017 HKD'000
Staff costs – excluding share options granted to directors and employees (Note 30)	**671,870**	501,595
Share options and share award granted to directors and employees (Note 30)	**42,554**	22,721
Raw materials consumed	**1,340,605**	1,057,384
Changes in inventories of finished goods and work in progress (Note 14)	**(75,578)**	(41,284)
Depreciation (Note 7)	**100,456**	69,156
Amortisation (Notes 6, 9)	**13,438**	13,835
Provision/(write-back) of impairment of financial and contract assets (Note 3.1)	**676**	(248)
Provision for impairment of inventories (Note 14)	**4,547**	(323)
Sales commissions	**16,165**	20,559
Utilities charges	**50,717**	50,382
Operating lease rental	**9,631**	12,499
Freight charges	**20,562**	16,259
Auditors' remuneration	**2,720**	3,003
Professional and consultancy fees	**15,509**	17,129
Travelling expenses	**10,828**	8,111
Advertising costs	**2,089**	1,294
Other tax expense	**15,921**	17,119
Others	**28,557**	23,519
	2,271,267	1,792,710

30 Employee Benefit Expense

	2018 HKD'000	2017 HKD'000
Salaries, bonus and other welfares	**647,808**	482,068
Pension – defined contribution plans	**24,062**	19,527
Share options and share award granted to directors and employees	**42,554**	22,721
	714,424	524,316

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 2018 and 2017, the Group was required to make monthly defined contributions to these plans based on certain percentage of the basic salary of employees. It is the local government's responsibility to pay the retirement pension to those staff who retired.

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

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

31 Finance Income and Cost

	2018 HKD'000	2017 HKD'000
Finance expense		
– Bank borrowings	**(28,202)**	(18,375)
– Other bank charges	**(4,197)**	(7,588)
Total finance expenses	**(32,399)**	(25,963)
Finance income		
– Interest income derived from bank deposits	**3,884**	5,227
– Exchange gain/(loss)	**2,310**	(3,114)
Total finance income	**6,194**	2,113
Net finance expense	**(26,205)**	(23,850)

32 Income Tax Expenses

	2018 HKD'000	2017 HKD'000
Current income tax		
– Hong Kong profits tax (b)	**14,703**	–
– USA profits tax (c)	**(6,334)**	389
– Canada profits tax (d)	**3,446**	2,488
– PRC enterprise income tax (e)	**969**	30,176
Total current income tax	**12,784**	33,053
Deferred income tax (Note 27)	**11,111**	10,057
Income tax expenses	**23,895**	43,110

(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 21%, and the applicable California state corporate income tax rate is 8.84%.

(d) The applicable tax rate for ITF and ArtIC is 26.7% and 26.5% respectively.

32 Income Tax Expenses (Continued)

(e) O-Net Shenzhen and O-Net Auto SZ applied to the relevant authorities in the PRC and have successfully been granted the qualification as High and New Technology Enterprises in the PRC. They are entitled to a concessionary enterprise income tax rate of 15%.

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:

	2018 **HKD'000**	2017 HKD'000
Profit before income tax	**282,109**	248,942
Tax calculated at statutory tax rates applicable to entities comprising the Group	**45,864**	49,867
Tax effect of:		
Research and development costs eligible for additional deduction	**(28,289)**	(15,846)
Utilization of previously unrecognized tax losses	**(2,244)**	–
Overprovision in prior years	**(6,334)**	–
Tax losses of which no deferred income tax asset was recognized	**6,542**	3,339
Changes in the applicable tax rate	**153**	–
Expenses not deductible for tax purposes		
– Share option expenses	**8,084**	3,786
– Others	**119**	1,964
Income tax expenses	**23,895**	43,110

33 Dividends

At a meeting of the directors held on 19 March 2019, the directors proposed a final dividend of HKD0.02 per ordinary share for the year ended 31 December 2018, which is subject to the approval by the shareholders in general meeting. This proposed dividend has not been reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2019.

34 Earnings Per Share

(a) Basic

Basic earnings per share is 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 excluding treasury shares.

	2018	2017
Profit attributable to equity holders of the Company (HKD'000)	**261,792**	208,867
Weighted average number of ordinary shares in issue (thousands)	**748,857**	751,323
Basic EPS (HKD per share)	**0.35**	0.28

(b) Diluted

The share options and awarded shares granted by the Company have potential dilutive effect on the EPS. Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing the diluted EPS). No adjustment is made to earnings (numerator).

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 and share awards. 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 and the transferring of share awards.

	2018	2017
Profit attributable to equity holders of the Company (HKD'000)	**261,792**	208,867
Weighted average number of ordinary shares in issue (thousands shares)	**748,857**	751,323
Adjustments for share options and share award (thousands shares)	**15,608**	32,500
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	**764,465**	783,823
Diluted EPS (HKD per share)	**0.34**	0.27

35 Cash Generated from Operations

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

	2018 HKD'000	2017 HKD'000
Profit before income tax	**282,109**	248,942
Adjustments for:		
Depreciation and amortisation (Note 6, 7, 9)	**113,894**	82,991
Provision/(write-back) for write-down of inventories (Note 14)	**4,547**	(323)
Provision/(write-back) of impairment of financial and contract assets (Note 3.1)	**676**	(248)
Loss on disposal of property, plant and equipment	**(874)**	466
Interest income (Note 31)	**(3,884)**	(5,227)
Interest expense (Note 31)	**28,202**	18,375
Share of loss of investments accounted for using equity method (Note 13)	**1,054**	3
Fair value gain on financial asset at FVPL (Note 28)	**2,723**	(422)
Loss on disposal of a subsidiary(Note 28)	**–**	59
Fair value gain on AFS	**–**	(1)
Fair value of share options and share award charged to profit or loss (Note 30)	**42,554**	22,721
Changes in working capital:		
– Pledged bank deposit (Note 19)	**(51,173)**	–
– Inventories (Note 14)	**(127,202)**	(108,533)
– Trade and other receivables	**5,348**	(311,844)
– Contract assets (Note 15)	**(27,180)**	–
– Trade and other payables	**93,404**	70,214
– Contract liabilities (Note 15)	**946**	–
Cash generated from operating activities	**365,144**	17,173

35 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	2018 HKD'000	2017 HKD'000
Cash and cash equivalents	**341,591**	320,749
Borrowings – repayable within one year (including overdraft)	**(487,770)**	(653,667)
Net debt	**(146,179)**	(332,918)
Cash and liquid investments	**341,591**	320,749
Gross debt – fixed interest rates	**(57,065)**	(581,361)
Gross debt – variable interest rates	**(430,705)**	(72,306)
Net debt	**(146,179)**	(332,918)

	Other assets	Liabilities from financing activities		
	Cash/bank overdraft HKD'000	Borrowing due within 1 year HKD'000	Borrowing due after 1 year HKD'000	Total HKD'000
Net debt as at 31 December 2017	320,749	(653,667)	–	(332,918)
Cash flows	32,573	146,439	–	179,012
Foreign exchange adjustments	(11,731)	19,458	–	7,727
Net debt as at 31 December 2018	341,591	(487,770)	–	(146,179)

36 Commitments

Operating Leases Commitments

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

	2018 HKD'000	2017 HKD'000
Not later than one year	13,576	9,296
Later than one year	65,851	12,682
	79,427	21,978

Capital Commitments

	2018 HKD'000	2017 HKD'000
Capital expenditure contracted but not provided for	4,167	15,943

37 Related Party Transactions

(a) Name and Relationship with Related Parties

Name	Relationship
Butterfly Technology	Controlled by key management personnel of the Company.
OBSZ	Joint Venture

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

37 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 2018 and 2017:

	2018 HKD'000	2017 HKD'000
Sales of products		
OBSZ	**55**	–
Butterfly Technology	**1,423**	1,082
	1,478	1,082
Rental income received from a related party		
Butterfly Technology	**710**	1,595

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

(c) Key management includes directors (executive and non-executive), the Company secretary, the president's office, the heads of O-Net Auto 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:

	2018 HKD'000	2017 HKD'000
Salaries, bonus and other welfares	**27,475**	20,975
Pension – defined contribution plans	**126**	106
Share option expenses	**6,162**	3,507
	33,763	24,588

37 Related Party Transactions (Continued)

(d) Balances with Related Parties

In 2018 and 2017, the Group had the following balances with related parties:

	2018 HKD'000	2017 HKD'000
Trade receivables (i)		
Butterfly Technology	–	96
OBSZ	53	–
Other receivables (i)		
Butterfly Technology	–	283
OBSZ	108	–

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

38 Subsequent Event

On 19 March 2019, O-Net BVI has entered into a supplementary agreement with API and its sole shareholder to acquire 100% equity interest in API, which holds 100% equity interest of 3SP, and consequently the acquisition of 3SP (Note 8(a)) was completed on the same day. Because the purchase price allocation for the acquisition has not been finalised before the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition.

39 Balance Sheet and Reserve Movement of the Company

Balance Sheet of the Company

	Note	As at 31 December 2018 HKD'000	2017 HKD'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**602,441**	559,986
Current assets			
Trade and other receivables		**653,643**	664,520
Cash and cash equivalents		**6,832**	1,702
		660,475	666,222
Total assets		**1,262,916**	1,226,208
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**8,020**	7,985
Share premium		**1,105,589**	1,100,025
Treasury shares		**(60,847)**	(74,926)
Other reserves	*(a)*	**156,313**	135,969
Retained earnings		**(22,221)**	(20,202)
Total equity		**1,186,854**	1,148,851
LIABILITIES			
Current liabilities			
Trade and other payables		**76,062**	77,357
Total liabilities		**76,062**	77,357
Total equity and liabilities		**1,262,916**	1,226,208

The balance sheet of the Company was approved by the Board of Directors on 19 March 2019 and was signed on its behalf.

Na Qinglin	**Chen Zhujiang**
Director	*Director*

39 Balance Sheet and Reserve Movement of the Company (Continued)

(a) Reserve movement of the Company

	Capital redemption reserve HKD'000	Share-based compensation HKD'000	Currency translation reserve HKD'000	Total HKD'000
At 1 January 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
At 1 January 2018	**1,305**	**127,582**	**7,082**	**135,969**
Share option scheme – value of services	**–**	**42,554**	**–**	**42,554**
Share award schemes – vesting of awarded shares	**–**	**(18,215)**	**–**	**(18,215)**
Currency translation differences	**–**	**–**	**(3,995)**	**(3,995)**
At 31 December 2018	**1,305**	**151,921**	**3,087**	**156,313**

40 Benefits and Interests of Directors

(a) Directors' Emoluments

The remuneration of each director of the Company for the year ended 31 December 2018 is set out below:

Name of director	Fees HKD'000	Salary HKD'000	Share options expense HKD'000	Other benefits and allowance HKD'000	Pension scheme contribution HKD'000	Total HKD'000
Mr. Na Qinglin (i)	**274**	**3,960**	**–**	**1,050**	**18**	**5,302**
Mr. Chen Zhujiang	**–**	**137**	**–**	**–**	**–**	**137**
Mr. Huang Bin	**–**	**137**	**–**	**–**	**–**	**137**
Mr. Mo Shangyun	**–**	**134**	**–**	**–**	**–**	**134**
Mr. Deng Xinping	**274**	**–**	**–**	**–**	**–**	**274**
Mr. Ong Chor Wei	**274**	**–**	**–**	**–**	**–**	**274**
Mr. Zhao Wei	**274**	**–**	**35**	**–**	**–**	**309**
	1,096	**4,368**	**35**	**1,050**	**18**	**6,567**

40 Benefits and Interests of Directors (Continued)

(a) Directors' Emoluments (Continued)

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

Name of director	Fees HKD'000	Salary HKD'000	Share options expense HKD'000	Other benefits and allowance HKD'000	Pension scheme contribution HKD'000	Total HKD'000
Mr. Na Qinglin (i)	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

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

(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 2018 (2017: one), whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining four (2017: four) individuals are as follows:

	2018 HKD'000	2017 HKD'000
Basic salaries	**12,848**	11,456
Pension costs	**90**	70
Bonus	**2,479**	1,721
Share option expenses	**5,646**	4,039
	21,063	17,286

40 Benefits and Interests of Directors (Continued)

(b) Five Highest Paid Individuals (Continued)

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

	2018	2017
Emolument bands		
HKD2,000,001 – HKD2,500,000	**–**	1
HKD2,500,001 – HKD3,000,000	**2**	2
HKD4,000,001 – HKD4,500,000	**1**	1
HKD4,500,001 – HKD5,000,000	**–**	1
HKD5,000,001 – HKD5,500,000	**1**	–
HKD6,000,001 – HKD6,500,000	**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 2018 (2017: 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 (2017: Nil).

(d) Directors' termination benefits

One termination on the appointment of director of the Company and certain subsidiaries occurred in 2018, but 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 (2017: Nil).

Five-Year Financial Summary

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

Consolidated Information

For the year ended 31 December

	2018 HKD'000	2017 HKD'000	2016 HKD'000	2015 HKD'000	2014 HKD'000
Profitability and operating data					
Revenue	**2,516,422**	2,035,085	1,598,319	1,135,495	831,280
Gross profit	**787,992**	726,473	569,685	362,557	288,949
Selling and marketing costs	**78,975**	76,152	63,408	49,450	36,386
Research and development expenses	**247,552**	230,820	187,812	135,080	105,952
Administrative expenses	**215,634**	177,126	177,501	134,024	107,206
Profit before income tax	**282,109**	248,942	154,366	82,078	51,364
Profit for the year	**258,214**	205,832	128,805	79,249	43,344
Profit attributable to equity holders of the Company	**261,792**	208,867	130,603	82,535	43,344
Profitability ratios					
Gross profit margin	**31.3%**	35.7%	35.6%	31.9%	34.8%
Profit before tax margin	**11.2%**	12.2%	9.7%	7.2%	6.2%
Profit* margin	**10.4%**	10.3%	8.2%	7.3%	5.2%
Operating ratios (as a percentage of revenue)					
Selling and marketing costs	**3.1%**	3.7%	4.0%	4.4%	4.4%
Research and development expenses	**9.8%**	11.3%	11.8%	11.9%	12.7%
Administrative expenses	**8.6%**	8.7%	11.1%	11.8%	12.9%

As at 31 December

	2018 HKD'000	2017 HKD'000	2016 HKD'000	2015 HKD'000	2014 HKD'000
Assets and liabilities data					
Non-current assets	**1,388,930**	1,322,909	999,440	858,707	766,374
Current assets	**1,830,430**	1,780,979	1,487,191	914,258	780,786
Non-current liabilities	**23,629**	17,605	62,752	15,852	14,176
Current liabilities	**948,267**	1,053,188	995,176	422,284	211,504
Equity	**2,247,464**	2,033,095	1,428,703	1,334,829	1,321,480

* Profit means profit attributable to equity holders of the Company