O-Net

Technologies (Group) Limited

昂納科技（集團）有限公司

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

ANNUAL REPORT 2019

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.

Operational Performance

1. Optical networking business

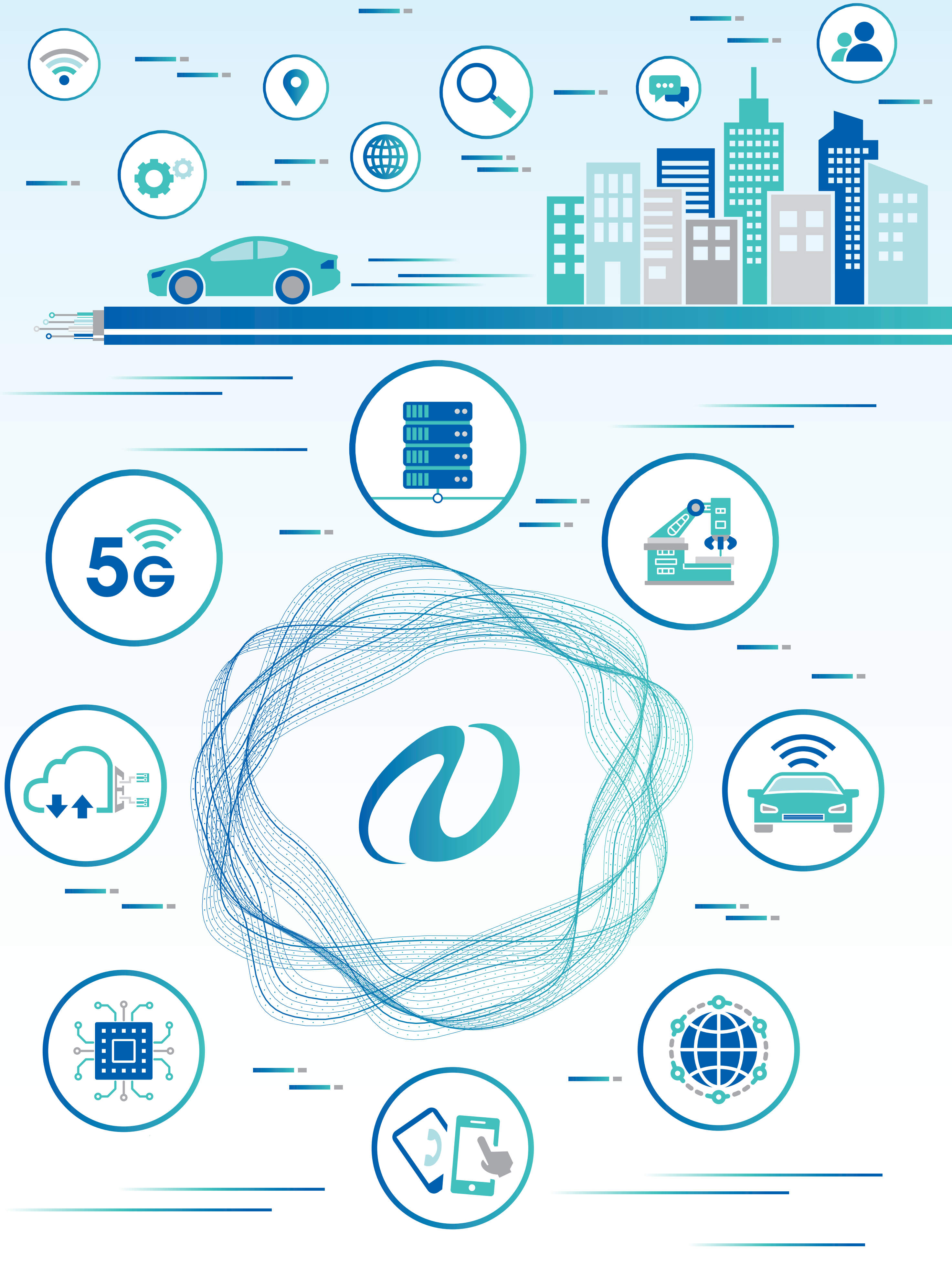
- Added new strategic overseas customers
- Mass production and shipment of Integrated Coherent Receivers, 100G AOC and Tunable Filters for 100GbE applications
- Gain greater market shares from overseas customers in both telecommunications and data-communications markets

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

The Group has presence around the world including in mainland China, The United States of America, Canada, France, Taiwan, Korea, Thailand and Germany and employs about 3,000-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).


5G

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:

Baker McKenzie

Auditor

PricewaterhouseCoopers

Property Valuer

Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Valuer

ValQuest Advisory Group Limited

Principal Bankers

China

China Construction Bank
Bank of China
China Merchants Bank
Standard Chartered 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

830,585,240 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

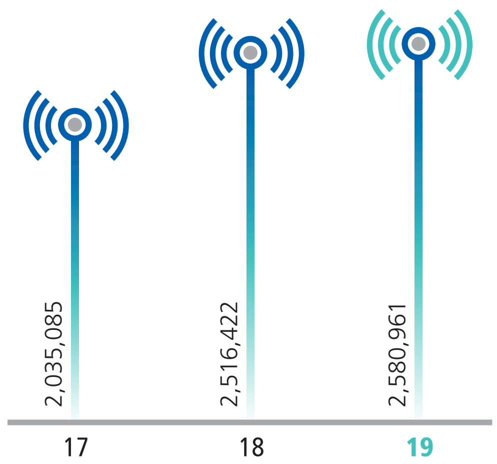
Hong Kong Share Registrar

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

Financial Highlights

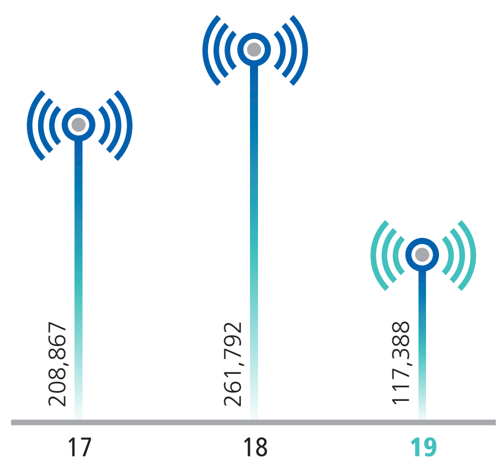
Revenue

(HKD'000)

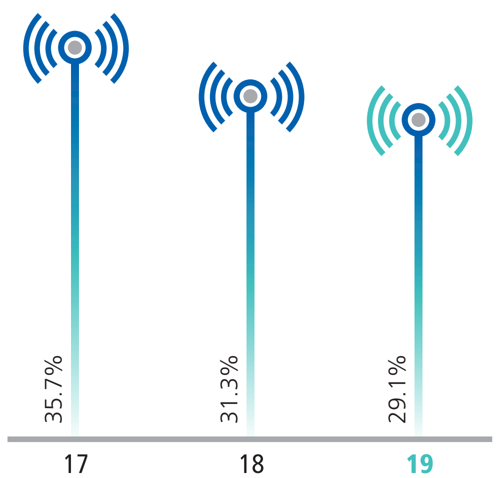


Profit Attributable to Equity Holders of the Company

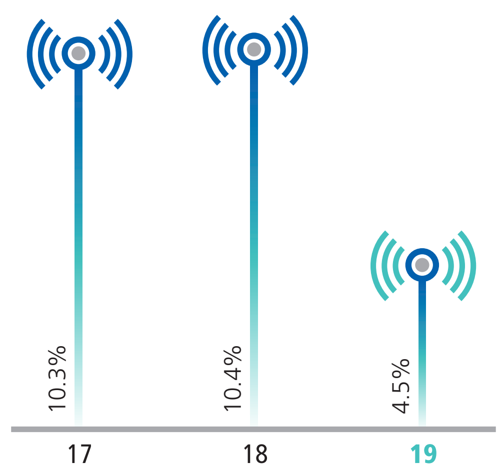
(HKD'000)



Gross Profit Margin

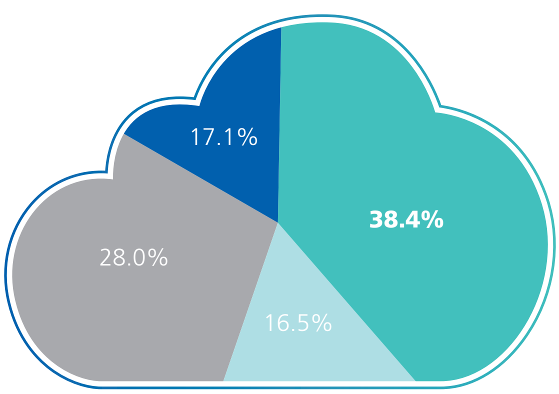


Profit* Margin

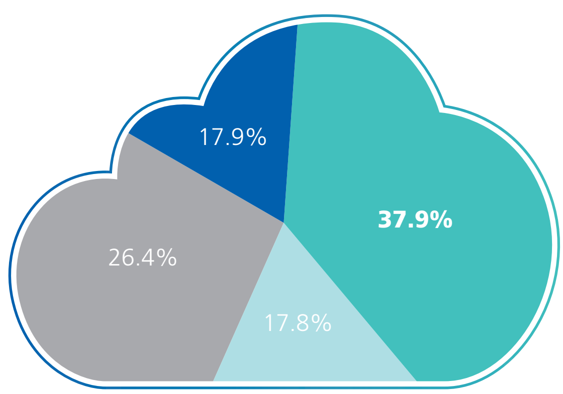


* *Profit means profit attributable to equity holders of the Company*

2019 Revenue by Geographical Segment



2018 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

Overall Performance

FY2019 was a dynamic year for O-Net, starting strong with high volume sales of our optical communications components driven by the early stages of 5G buildout in Asia and improvements made in existing optical infrastructure in Europe and North America. These conditions did not continue, however, as trade tensions emerged in the summer, creating uncertainty in the optical communications supply chain. In the second half of the year, channel inventory increased with some of our key customers, pushing new shipments into 2020. Despite more challenging business dynamics, we are pleased to have achieved consolidated revenue of HKD2,581.0 million and non-GAAP net profit* of HKD236.7 million in FY2019, or an increase and a decrease of 3% and 27% respectively.

Business Review

As telecommunications and data-communications have continued to grow, we were excited to offer expanded lines of transport modules and active components, including EDFA, AOC, and ICR to our customers. In addition to our wide range of communications components, our industrial and sensing business has remained resilient. Industrial lasers, machine vision and electronic cigarettes all recorded revenue growth in FY2019, as O-Net continued to invest in these high-growth sectors. Though LiDAR and consumer electronics recorded revenue declines, we remain confident that the secular and cyclical nature of these business segments will return to growth in the near future.

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

Chairman's Statement

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 network volume in the coming years. As we are firmly in the mobile communication age, the ability to upgrade the global telecommunications infrastructure will require numerous stakeholders to work in concert. The scale and complexity of this undertaking lends itself to long cycles of heavy capital investments that require extended periods of planning and execution. In 2020, we will be at the edge of the next great advancement cycle; one that may last nearly a decade and require as much as one 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 in 2020, companies will have an opportunity to showcase 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 as part of a lucrative business. These strong macro tailwinds have already helped us continue to grow our optical components business by 4% in FY2019.

The other industrial and sensing businesses have continued to perform well, led by the Machine Vision division, which saw revenue increase by 21% to HKD52.9 million in FY2019. This outstanding performance was followed by the Industrial Laser division, which grew by 15% to achieve revenue of HKD175.9 million, and the Electronic Cigarette division, which grew by 10% to reach revenue of HKD105.4 million. However, LiDAR and Consumer Electronics both recorded sales declines of 53% and 44% respectively. A significant reorganization and cost-reduction program was implemented for the Consumer Electronics division during 2019 to address the lower business scale of this segment, and we do not anticipate to see a quick turnaround in 2020.

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 workforce. As at FY2019, the Group recorded revenue of HKD2,581.0 million, an increase of 3% over the preceding year. Net profit attributable to equity holders was down 55% to HKD117.4 million for FY2019.

Future Prospects

FY2020 is expected to present O-Net with many new challenges and opportunities, which will test our ability to deliver cutting-edge technologies to our customers. At present, the world is contending with a pandemic that is unprecedented in the age of globalization. As governments around the world struggle to manage this crisis, O-Net will do its part to ensure the steady delivery of communications components that are vital to maintaining a new era of virtual and remote business operations. We remain committed to providing top-quality products to our customers without compromising the health and safety of our employees.

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 the Group's business partners and customers, all of whom have been pivotal to its development and 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, 17 March 2020

Management Discussion and Analysis

The Group has continued to maintain its position as a leader in the provision of high-technology products and optical networking components. In addition to its market leadership in key passive optical components such as WDM and EDFA, while making significant strides in active optical components such as AOC and ICR products. As major telecommunication operators begin to roll out 5G in the coming years, the Group expects to see healthy growth in its core business. Outside of the core optical networking business segment, industrial and sensing products saw mixed results in 2019. The first half of 2019 saw strong shipments of optical communications components, while the second half experienced a noticeable decline attributable primarily to a build-up in downstream inventory that has since been resolved. The Group's successful acquisition of 3SP Technologies ("3SP") has bolstered its product portfolio by improving its capabilities in laser diodes, which are primarily used in optical communications. The strategy to diversify its product portfolio, which began in 2012, has proven useful during cyclically low phases of the telecommunications 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) machine vision for industrial automation; (ii) electronic cigarettes; (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 second half of 2019. Major telecommunication operators have indicated that they will begin significant investments in 5G infrastructure, with Japan and Korea leading the way. Despite the recent COVID-19 outbreak, it is still expected that, unlike previous iterations, the 5G investment cycle will start in Asia with signs that major Chinese operators may roll out deployments in 2020. 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 tier-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 FY2019, the Group's optical components business maintained modest growth by leveraging its core technologies and customer relationships. Despite relatively weak industry-wide demand during the year, the Group has duly seized opportunities resulting from both the telecommunications and data-communications sectors, and generated revenue of HKD2,181.7 million, up 4% year-on-year. Optical networking remains the Group's core business, representing 85% 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.

Machine Vision Business

The Industry 4.0 initiative ushered in during 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 here. Buoyed by strong demand from mainland China, sales of this product increased by 21% year-on-year, contributing HKD52.9 million in revenue to the industrial applications businesses in FY2019.

Management Discussion and Analysis

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 a series of automation solutions for the E-cigarette manufacturing industry. Capitalising 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 year-on-year growth of 10% and generated revenue of HKD105.4 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. Capitalising 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 HKD175.9 million in revenue from the industrial laser business in FY2019 which represented a growth rate of 15% in sales over the prior year.

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

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 capitalise 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. Despite these longer term opportunities, the LiDAR business is still at very early stages, where commercial adoption is still being tested. The gradual adoption of this new technology translated to a lighter-than-expected sales volume for 2019, generating revenue of HKD11.0 million for the year, down 53% 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 2019 with the delay of new smartphone models entering the market. Major phone makers are waiting for investments in 5G infrastructure to release 5G compatible phone models during 2020 and 2021. We expect the smartphone supply chain to bottom out in the first half of 2020 as it continues a trend of declining sales which began in the first half of 2018. For the fiscal year ended 2019, consumer electronics revenue declined 44% to HKD54.1 million.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For FY2019, the Group reported revenue of HKD2,581.0 million, representing an increase of HKD64.6 million, or 2.6%, compared with that of HKD2,516.4 million in FY2018. The increase in revenue in FY2019 was primarily attributable to the growth in revenue of optical networking business.

Optical Networking Business

The optical networking business recorded revenue of HKD2,181.7 million in FY2019, representing an increase of HKD78.1 million, or 3.7% as compared with that of HKD2,103.6 million in FY2018. The increase was primarily attributable to the growing demand for the optical networking products in active component.

Industrial and Sensing Businesses

The industrial and sensing businesses recorded revenue of HKD399.3 million in FY2019, representing a decrease of HKD13.5 million, or 3.3% as compared with that of HKD412.8 million in FY2018, attributable to the net effect of (i) sharp decrease of revenue in consumer electronics business and LiDAR business; and (ii) growth of revenue in machine vision business, automation solutions business for E-cigarettes and industrial laser business.

Machine Vision Business

Revenue of HKD52.9 million was recorded in FY2019, representing an increase of HKD9.1 million, or 20.8% as compared with that of HKD43.8 million in FY2018. The rise in revenue in FY2019 was primarily attributable to bolstered sale efforts by the Group.

Automation Solutions Business for E-cigarettes

Revenue of HKD105.4 million was recorded in FY2019, representing an increase of HKD9.2 million, or 9.6% as compared with that of HKD96.2 million in FY2018. The increase in revenue in FY2019 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 FY2019, revenue from the industrial laser business of HKD175.9 million was recorded, representing an increase of HKD23.4 million, or 15.3% as compared with that of HKD152.5 million in FY2018. The revenue rise was primarily due to the contribution of 3SP due to the completion of acquisition in March 2019.

LiDAR Business

Revenue of HKD11.0 million was recorded in FY2019, representing a decrease of HKD12.6 million, or 53.4% as compared with that of HKD23.6 million in FY2018 which was primary attributable to a lower demand from existing customers.

Consumer Electronics Business

Revenue of HKD54.1 million was recorded in FY2019, representing a decrease of HKD42.6 million, or 44.1% as compared with that of HKD96.7 million in FY2018 which was primary due to the decrease in demand of coating of smartphone manufacturers in China as they are waiting for investments in 5G infrastructure to release 5G compatible phone models.

Gross Profit and Gross Profit Margin

The gross profit in FY2019 was HKD750.3 million, representing a decrease of HKD37.7 million, or 4.8%, from the gross profit of HKD788.0 million in FY2018. The lower gross profit was primarily due to the net effect of (i) write-down of inventories of fiber lasers in industrial laser business; (ii) provision for impairment loss of machinery of consumer electronics business; (iii) drop of gross profit from EDFA in optical networking business; and (iv) decrease of gross profit of consumer electronics business.

As a percentage of total revenue, gross profit margin decreased to 29.1% in FY2019 as compared with 31.3% in FY2018. The decrease in gross profit margin was the net effect of (i) the write-down of inventories of fiber lasers; (ii) provision for impairment loss of machinery of consumer electronics business; (iii) drop of gross profit margin of EDFA in optical networking business; and (iv) decrease in gross margin of consumer electronics business.

Other Gains

Other gains in FY2019 decreased by HKD51.5 million to HKD12.7 million, from HKD64.2 million in FY2018, which was primarily due to the net effects of (i) decrease in government grants by HKD27.3 million, from HKD41.0 million in FY2018 to HKD13.7 million in FY2019 (ii) 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 FY2019, the foreign exchange gain was HKD3.3 million as compared with the foreign exchange gain of HKD21.4 million in FY2018; (iii) loss on disposal of equity investment with call and put option of HKD10.8 million arising from the exercise of put and call option which disposed approximately 33% equity interest in WaveTouch Group Limited in return for 2,000,000 Windar Shares; and (iv) other miscellaneous gains increased by HKD4.7 million.

Selling and Marketing Costs

Selling and marketing ("S&M") costs of HKD81.5 million in FY2019 rose by HKD2.5 million, or 3.2%, compared with HKD79.0 million in FY2018. The increase in selling and marketing costs in FY2019 was primarily attributable to the net effect of (i) the increase in the salary costs; (ii) the increase in share options/share awards expenses; (iii) increase in travelling and consumable expenses of HKD2.4 million; and (iv) the decrease in sales commission of HKD5.6 million because of decreased sales via agents. However, selling and marketing costs as a percentage of revenue increased to 3.2% in FY2019 as compared with 3.1% FY2018. This was mainly due to higher S&M expenses of 3SP as a percentage of revenue since the consolidation of 3SP in FY2019.

Salary costs in FY2019 was HKD47.3 million, an increase of HKD5.3 million, or 12.6% compared with HKD42.0 million in FY2018. This increase was primarily attributable to the combined effect of (i) the increase in salaries; and (ii) consolidation of 3SP due to the completion of acquisition in FY2019.

Share options/share awards expenses in FY2019 was HKD5.3 million, representing an increase of HKD0.5 million, compared with HKD4.8 million in FY2018. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in FY2019 and FY2018.

Research and Development Expenses

Research and development ("R&D") expenses in FY2019 were HKD270.8 million, HKD23.2 million or 9.4% higher compared with HKD247.6 million in FY2018. 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 depreciation; and (iii) the decrease in share options/share awards expenses. However, R&D expenses as a percentage of revenues increased to 10.5% in FY2019 as compared with 9.8% in FY2018. This was mainly due to (i) the increase in R&D expenses outweighing the increase in revenue; and (ii) higher R&D expenses of 3SP as a percentage of revenue since the consolidation of 3SP in FY2019.

The salary costs for R&D engineers was HKD150.2 million, representing an increase of HKD19.1 million, or 14.6% as compared with HKD131.1 million in FY2018. The increase was primarily attributable to the combined effect of (i) the increase in hiring of R&D engineers; and (ii) higher salaries.

Depreciation in FY2019 was HKD22.5 million, representing an increase of HKD4.6 million, or 25.7% as compared with HKD17.9 million in FY2018. The increase was primarily attributable to (i) depreciation of right-of-use assets due to the effective of HKFRS 16; (ii) more machines utilization in R&D projects; and (iii) consolidation of 3SP due to the completion of acquisition in FY2019.

Share options/share awards expenses in FY2019 was HKD14.6 million, representing a decrease of HKD6.1 million, or 29.5% as compared with HKD20.7 million in FY2018. The decrease was primarily attributable to a fewer grant of share awards in FY2019.

Administrative Expenses

Administrative expenses in FY2019 were HKD262.5 million, HKD46.9 million or 21.7% higher as compared with HKD215.6 million in FY2018. The increase of administrative expenses in FY2019 was primarily attributable to (i) the increase of the salary costs; (ii) the increase of depreciation and amortisation charges; (iii) the increase of share options/share awards expenses; and (iv) increase in overall administrative expenses. However, administrative expenses as a percentage of revenue increased to 10.2% in FY2019 as compared with 8.6% in FY2018. The reason was mainly attributable to (i) consolidation of 3SP due to the completion of acquisition in FY2019; and (ii) the higher overall administrative expenses outweighing the revenue.

For FY2019, the salary costs was HKD137.1 million, representing an increase of HKD11.6 million, or 9.2% as compared with HKD125.5 million for FY2018. The increase was primarily attributable to (i) an increment in salaries; and (ii) consolidation of 3SP due to the completion of acquisition in FY2019.

Depreciation and amortisation in FY2019 was HKD27.6 million, representing an increase of HKD17.4 million, or 170.6% as compared with HKD10.2 million in FY2018. The increase was primarily attributable to the combined effect of (i) depreciation of right-of-use assets due to the effective of HKFRS 16; and (ii) amortisation of patents and depreciation charges of 3SP due to the completion of acquisition in FY2019.

Share options/share awards expenses in FY2019 was HKD8.2 million, representing an increase of HKD0.6 million, compared with HKD7.6 million in FY2018. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in FY2019 and FY2018.

The other administrative expenses rose in line with growth and expansion of the Group such as utilities, travelling and freight charges, legal and professional fee and auditor's remuneration.

Finance Income/Expenses

Finance income in FY2019 amounted to HKD15.4 million, representing an increase of HKD9.2 million, compared with HKD6.2 million in FY2018. 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 HKD11.1 million in FY2019 as compared with foreign exchange gain of HKD2.3 million in FY2018; and (ii) the increase in interest income of HKD0.4 million.

Finance expenses in FY2019 amounted to HKD33.1 million, representing an increase of HKD0.7 million, or 2.2% as compared with HKD32.4 million in FY2018. The increase in finance expenses was primarily due to the increase in bank borrowings in FY2019 as compared with FY2018.

Share of Losses of Associates

Share of losses of associates which represent share of results of two associates accounted for using equity method was HKD6.5 million in FY2019 as compared with profits of HKD1.1 million in FY2018, representing an increase of HKD7.6 million. The increase was primarily due to (i) full year share of loss of an associate in FY2019 as InLC Technology Inc. ("InLC") was acquired in October 2018; (ii) additional equity interest of 8.37% of InLC was acquired during FY2019 which shared more loss of InLC; and (iii) the Group shared loss of Innovision FlexTech Corp. ("IFTC") in FY2019 as compared with share of profit of IFTC in FY2018.

Share of Loss of a Joint Venture

Share of loss of a joint venture was HKD3.0 million for FY2019, which represents an increase of HKD0.8 million compared with HKD2.2 million for FY2018 due to more R&D expenses for R&D projects.

Income Tax Expenses

Currently, income tax expenses of the Group mainly consist of P.R.C. Enterprise Income Tax ("PRC EIT"), Hong Kong profits tax, 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.

Income tax expenses in FY2019 amounted to HKD4.5 million, representing a decrease of HKD19.4 million or 81.2% from the income tax expenses of HKD23.9 million in FY2018. The drop in income tax expenses was primarily due to the deferred tax arising from the property, plant and equipment, tax loss and provisions made during FY2019 .

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.

	Year ended 31 December	
	2019	2018
	HKD'000	HKD'000
Adjustment to Measure Non-GAAP Gross Profit		
Gross Profit	**750,257**	787,992
Adjustment Related to Cost of Sales		
Provision for inventory write-down	**24,869**	4,547
Provision for impairment of property, plant and equipment	**21,144**	–
Impairment on development expenditure	**4,670**	–
Non-GAAP Gross Profit	**800,940**	792,539
Adjustment to Measure Non-GAAP Net Profit*		
Net Profit*	**117,388**	261,792
Adjustment Related to Cost of Sales		
Provision for inventory write-down	**24,869**	4,547
Provision for impairment of property, plant and equipment	**21,144**	–
Impairment on development expenditure	**4,670**	–
Adjustments to Measure to Operating expenses		
Share options and share awards granted to directors and employees	**35,780**	42,554
Amortization of intangible assets	**22,258**	13,438
Adjustments to Other Gains – net		
Fair value loss on derivative financial instruments	**–**	2,723
Gain on disposal of a subsidiary	**(301)**	–
Loss on disposal of derivative financial instruments	**97**	–
Loss on disposal of equity investment with call and put option	**10,830**	–
Non-GAAP Net Profit*	**236,735**	325,054
Non-GAAP EPS		
– Basic	**0.31**	0.43
– Diluted	**0.30**	0.43
Gross Profit Margin	**29.1%**	31.3%
Non-GAAP Gross Profit Margin	**31.0%**	31.5%
Net Profit* Margin	**4.5%**	10.4%
Non-GAAP Net Profit* Margin	**9.2%**	12.9%

* Profit attributable to Equity Holders of the Company

Prospects

In the beginning of 2020, the world has been overwhelmed by the COVID-19 outbreak (the "Epidemic"), which might have certain degrees of economic concern over the world. O-Net's operations in Shenzhen was moderately affected in accordance to the government authorities' various emergency public health measures to control the spread of the Epidemic, which caused a short delay in the resumption of work of the Group's Shenzhen plant. Nevertheless, with O-Net's strong technology powerhouse presence around the globe, the impact of the Epidemic is relatively mild on the Group's business and the impact on the telecommunications sector is believed to be temporary.

Going forward, with numerous opportunities arising from different technology initiatives, the Group will continue to 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 maintain growth 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 demand for the Group's core products. Unlike 2019, which witnessed a bottoming of the global telecommunications investment cycle, 2020 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. Chief among these new products for 2020 include a broader range of active optical components as well as new transport modules, including ROADMs and smaller form factor optical amplifiers.

Industrial and Sensing Businesses

The Group's industrial and sensing businesses, which accounted for 15% of total revenue in 2019, achieved mixed results in 2019. Some business divisions, such as Machine Vision, continue to exceed the Group's expectations, as it expands to new markets and new geographies. 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. Especially in light of the recent Epidemic, the Group 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, digitalised and networked manufacturing market.

O-Net, along with ITF, continues to develop the 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.

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 leverage its unique position by offering a broad range of fiber-based components and systems necessary for fiber lasers – both for high-power and lower-power fiber laser 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 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 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 digitalisation industries in the coming years and beyond. Leveraging the Group's position as a leader in industrial automation, automated electronic cigarette solutions continue to be an important growth area. The Group remains confident that the recent downturn in certain electronic cigarette markets is only temporary and that policy makers will eventually recognize the benefits of electronic cigarettes over traditional tobacco cigarettes.

The Group has made adjustments of staff on business units and its cost reduction programme in response to the decline of its coating for mobile phone business, i.e. the Consumer Electronics division. The operation scale has been reduced to a minimum level in order to avoid similar operation loss as in 2019. The Group believes the division is in a much better situation in terms of operational flexibility and efficiency, which should enable it to address future sharp cyclical changes in the industry.

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2019, the Company's issued share capital was approximately HKD8.3 million divided into 826,860,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD2,338.0 million (31 December 2018: HKD2,247.5 million). The Group had current assets of HKD1,989.8 million and current liabilities of HKD1,076.8 million and the current ratio was 1.85 times as at 31 December 2019 (31 December 2018: 1.93 times). The Group's gearing ratio (calculated as total borrowings over total equity) was 25.3% at 31 December 2019 (31 December 2018: 21.7%).

As at 31 December 2019, the Group had cash and cash equivalents of approximately HKD481.1 million (31 December 2018: HKD341.6 million). The increase was due to net proceeds from bank borrowings and decrease of 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 2019, the Group had bank deposits of HKD10.7 million (31 December 2018: HKD65.7 million) pledged as guarantee for payables to suppliers for purchasing of goods.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2019, the Group had contractual capital commitments of approximately HKD33.6 million (31 December 2018: HKD4.2 million). As of 31 December 2019, 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 2019, 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 HKD215.8 million (31 December 2018: HKD179.5 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 2019, the Group had a total of 2,969 employees (31 December 2018: 5,196). The Group's staff costs (including Directors' fees) amounted to HKD629.4 million (31 December 2018: HKD714.4 million). The remuneration policy of the Group is reviewed annually by the Remuneration Committee of the Company and is in line with the prevailing market practice.

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

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

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

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

The Post-IPO Share Option Scheme was adopted on 9 April 2010 to retain staff members who have made contributions to the success of the Group. For 2019, no option was granted (30 December 2018: 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. During the year ended 31 December 2019, no restricted shares were purchased by the trustee from the market, and 18,881,000 new shares were allotted and issued to the trustee by the Company for the purpose of the Share Award Scheme. For 2019, 6,510,000 shares were granted to employees of the Group (2018: 16,230,000).

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 does not recommend any final dividend for the year ended 31 December 2019.

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

As at 31 December 2019, the Group maintained sufficient funds for the capital investment and operations for the coming year.

MATERIAL EVENT SINCE THE END OF THE FINANCIAL PERIOD

Following the outbreak of Coronavirus Disease 2019 (the "COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the PRC, including but not limited to extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday, and certain level of travel and traffic restrictions.

The operation of the Group's production plant in Shenzhen (the "Shenzhen Production Plant") was temporarily suspended after the extended Chinese New Year holiday as part of the Chinese government's countermeasures in containing the COVID-19 outbreak, but has already resumed recently.

Based on the Group's latest assessment, the COVID-19 outbreak is only expected to affect the global telecommunications markets temporarily. Moreover, outside of the Shenzhen Production Plant, the Group operates research and development centres across the world through its subsidiaries in France, Canada and USA which mitigates the concentration risks from the COVID-19 outbreak.

As at the date of this report, the Group was not aware of any material adverse effects on the financial statements, financial position and operating results.

Nevertheless, the Group will continue to monitor the development of the COVID-19 outbreak and take appropriate measures as necessary.

Biographical Details of Directors and Senior Management

Executive Director

Mr. Na Qinglin

Mr. Na, aged 53, is the Chairman of the Board, the Chief Executive Officer and an executive Director. Mr. Na joined the Company as the Chief Executive Officer in January 2002 and was subsequently appointed as the Co-Chairman of the Board of the Company, and was also appointed as an executive Director of the Company on 12 November 2009. He was re-designated from Co-Chairman to Chairman of the Board on 7 October 2016. He is the chairman of each of the nomination committee (the "Nomination Committee") and the corporate governance committee (the "CG Committee") and a member of the remuneration committee of the Company (the "Remuneration Committee"). Mr. Na is also a director of all the subsidiaries of the Company. He is responsible for the Company's overall corporate strategy, management team development and daily operations.

Mr. Na is a director of each of Butterfly Technology (Shenzhen) Limited and 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 52, 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 Executive 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.

Mr. Huang Bin

Mr. Huang, aged 59, 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 holds a bachelor's degree in Economics from Harvard University.

Mr. Mo Shangyun

Mr. Mo, aged 53, 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 53, was appointed as an independent non-executive Director on 9 April 2010. He is the chairman of the Remuneration Committee and a member of each of the audit committee (the "Audit Committee") and the Nomination Committee. Mr. Deng founded Guangzhou FEnet System Networks Co., Ltd (廣州市菲奈特系統網絡有限公司), a provider of software electronic products, computer systems and related technology, in July 1995. Mr. Deng served as the chief executive officer of Guangzhou FEnet Software Co., Ltd. (廣州菲奈特軟件有限公司) from 2001 to July 2007, Guangzhou FEnet Software Co., Ltd. and Guangzhou FEnet System Networks Co., Ltd. are wholly-owned subsidiaries of FEnet Co. Ltd.. Mr. Deng also served as a vice president of Longtop Financials Technologies, a company listed on the New York Stock Exchange, from 1 July 2007 to 30 June 2012.

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

Mr. Ong Chor Wei

Mr. Ong, aged 50, 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 29 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 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), all three 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 Vico International Holdings Limited (Stock code: 1621) from 23 June 2017 to 1 February 2019, a company listed on the main board of the SEHK. Mr. Ong was also an executive director of Zibao Metals Recycling Holdings Plc, a company trading on AIM, a market operated by the London Stock Exchange, until his resignation on 3 September 2019.

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 55, 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 27 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 66, is the Vice President of Research and Development of the Group, where he is responsible for overseeing optical networking product development activities including the R&D teams in the USA, and Shenzhen and Hangzhou, China. He is also responsible for leading the R&D team in the USA in the development of optical transceiver products. He joined the Group in March 2016.

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

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

Dr. Liu Yi-Cheng

Dr. Liu, aged 57, 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 21 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 62, 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 37 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 57, 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. Gong Zhigang

Dr. Gong, aged 51, 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 58, 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 26 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 50, 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 56, is the company secretary of the Company. He is a fellow member of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) and The Hong Kong Institute of Company Secretaries. He is also a member of The Hong Kong Institute of Directors. Mr. Tse is currently the company secretary of each of SH Group (Holdings) Limited, Synertone Communication Corporation, Target Insurance (Holdings) Limited and Universal Star (Holdings) Limited, all four companies are listed on the Main Board of the Stock Exchange, and Larry Jewelry International Company Limited, a company 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.

Mr. Wang Kevin Haigeng

Mr. Wang, aged 36, 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 40, 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 17 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 61, 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.

Biographical Details of Directors and Senior Management

Mr. Konstantinidis has over 30 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 60, 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 30 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.

Dr. Guang-Hua Duan

Dr. Duan, age 57, is the General Manager of 3SP Technologies, who is responsible for the Company's overall management, including team development and daily operations. He joined 3SP Technologies on September 2017.

He has extensive experience in the research & development of semiconductor optoelectronic devices. Prior to joining 3SP Technologies, he was the leader of the research group of "Silicon Photonics" within III-V Lab, which is a joint laboratory of Nokia, Thales and CEA Leti, and the Head of the Research Department "Heterogeneous integration of III-V on silicon" within Nokia Bell Labs. Previous to that, he had been an Assistant, then an Associate Professor at Ecole Nationale Supérieure des Télécommunications (Telecom-ParisTech) from 1992 to 2000 in France, and a Visiting Associate Professor at University of Maryland from 1998 to 1999 in U.S.A. He joined Opto+, Alcatel Research & Innovation Center in Marcoussis, France, on October 2000. He is a Guest Professor at "CentraleSupélec" and "Ecole Supérieure d'Optique", giving lectures in the fields of optoelectronics and laser physics.

Dr. Duan received both the M. E. and the Doctorate degrees from Telecom-ParisTech, France. He was habilitated to direct researches by Université de Paris-Sud in 1995. In addition, He is author or co-author of more than 100 journal papers, 250 conference papers, 30 patents and a contributor to 4 book chapters.

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 2019. 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").

This Report covers the Group's factory complex operations in Pingshan, Shenzhen, People's Republic of China ("PRC") (the "Reporting Scope") from 1 January 2019 to 31 December 2019 (the "Reporting Period"), unless otherwise specified. Our office in Hong Kong continues to be excluded from the Reporting Scope due to its insignificance and immateriality to the Group's operations economically, socially and environmentally.

This Report aims to introduce 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 in this regard will be further explained and highlighted in the following sections.

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

About O-Net

"Technology can change the world". At O-Net, we are powered by our vision and aspiration to be the leader in the global high-technology and optical telecommunications and data-communication market. Since our establishment in 2000, we have made significant strides in the fast-growing global technology industry through potent management and continuous investment in research and development ("R&D"), which in turn granted us the capacity to provide high quality products and solutions to support the success of our customers.

As the world enters the 5G era, we have strategically stabilised the supply of advanced laser chips and optical components and widened our 5G products range through vertical integration. Apart from our core optical networking business, we will continue to develop ourselves in other segments including electronic cigarettes, machine vision, industrial fiber lasers, LiDAR for emerging Advanced Driver Assistance Systems ("ADAS") applications and coating services for the consumer electronics market.

Environmental, Social and Governance Report

It is our overall goal and ambition to remain as a leader in the global high-technology industry. To capture new opportunities and promote continuous business growth, we have repositioned our strategic focus from providing telecom passive component to offering advanced products and solutions for cloud data centers, automation, sensing and industrial laser, as well as ADAS and smartphone markets. Together with our O-Netese, we look forward to embracing more challenges and opportunities in this ever expanding and thriving industry in the years ahead.

Our Vision:

- Technology changes the world

Our Vision:

- 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 Value:

- Wisdom
- Credibility
- Empathy
- Courage
- Rigorousness

(Inspired by Sun Tzu's Art of War)

Sustainability at O-Net

– Ingraining Sustainability into Our Business

At O-Net, sustainability is embodied in every tier of our operations. We aspire not only to become a corporation that creates value for its shareholders, but also an organisation that brings positive impacts to the society and the environment.

Sustainability Governance Framework

Our sustainability management is established on a comprehensive tiered structure. At the top level, our Board takes up a leadership and strategic role in the overall ESG management with a commitment to integrate sustainability principles into every level of our operations. Their management is supported by various committees that are responsible for managing, promoting and implementing sustainability objectives in specific areas of our operations, including management system, environment and occupational health and safety, risk management, social responsibility and information security. Collectively, they form the pillars and foundation of our sustainability governance.

Strategise

Board of Directors

- Identify and evaluate ESG-related risks and opportunities
- Ensure effectiveness and appropriateness of ESG risk management system and internal control system
- Establish ESG management approach, strategy, priorities and objectives
- Review ESG performance regularly
- Approve disclosures within ESG reports

Implement and Manage

Management System Supervising Committee

- Ensures efficiency and applicability of the management system

Environmental and Occupational Health and Safety Committee

- Keeps operations on track with the requirements of our environment and occupational health and safety management system
- Maintain the system's relevance and applicability to our business

Social Responsibility Committee

- Implement, monitor and supervise the Group's strategies, plans and initiatives relating to social responsibility and occupational health and safety

Information Security Management Committee

- Formulate strategies, policies, procedures and organise trainings related to information security

Risk Assessment and Business Impact Assessment Committee

- Ensures business continuity in times of crises
- Manage risks and enhance business resilience

Stakeholder Engagement

Stakeholder engagement is an important exercise to help us understand the dynamic expectations of our stakeholders. We strive to remain professional and reliable to our valuable stakeholders, as their opinions and satisfactions are a decisive measure of our success. To facilitate interactions with our stakeholders, various communication channels are set up and maintained.

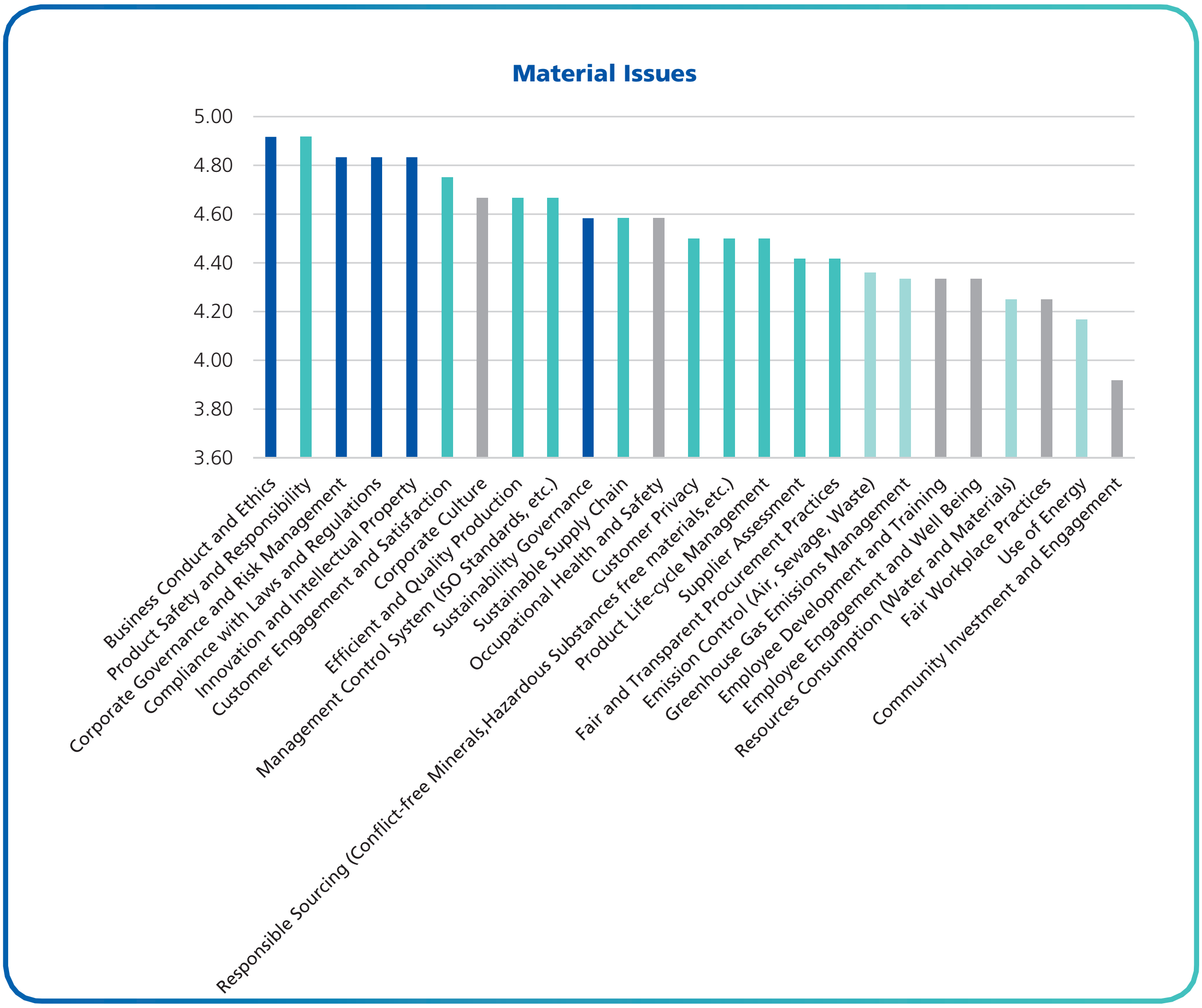
To further introduce the O-Net brand to the community, we have passionately prepared a promotional video about the Group in November 2019. The video presents our strengths and competence as a leading supplier and innovator in optical telecommunications and data-communication industry. It also highlights our corporate culture to enhance and buttress our brand as an employer of choice. To watch our promotional video, please refer to "News" under our corporate website.

Stakeholders	Concerns	Engagement Channels (Frequency, if applicable)
Shareholders and investors	Financial performance Strategic plans Operational compliance	General meetings (Annually) 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 (as needed) Meeting with staff representatives (Regularly) Internal newsletter (Bi-annually) Events and gatherings (Regularly) Social media platform, intranet Notice boards, message boxes
Customers	Product quality and safety Operational Compliance Customer services and support Sustainability strategies	Customer satisfaction survey (Annually) Customer visits (As needed) Industry exhibitions (Several times a year) Meetings and correspondences Corporate website
Suppliers	Production safety Business conduct Operational compliance	Tender procedures and meetings (As needed) Site visits (As needed) Review and assessment (Annually, half-yearly, monthly) Industry exhibitions (Several times a year)
Community	Support to society Environmental impacts Operational compliance Job opportunities	Community activities involvements (Regularly) Recruitment events (Several times a year) Corporate website Social media platform
Government Bodies	Operational compliance Environmental impacts	Visits and inspections (As needed)

Materiality Assessment

Materiality assessment refers to the process of identifying, prioritising, validating and reviewing potential sustainability-related issues that affect our operations. Since 2018, we have committed to conducting materiality assessment annually to determine the importance of ESG-related issues in our business. This year, we continued to collaborate with an external consultancy to carry out the practice to ensure credibility and fairness of the assessment.

Similar to last year, the Group's management were invited to participate in the materiality assessment through an online survey. First part of the survey required rating of relative importance of 25 sustainability issues on a scale of 0 to 5 while the second part was a new component that aimed at identifying Sustainable Development Goals ("SDGs") that are relevant to our business. A total of 12 management provided their feedback. Survey results were used to inform the content of this Report and the formulation of our sustainability strategy. The chart below presents the results of part 1 of the survey. Results of part 2 were circulated and reviewed internally.



Sustainability Strategy

To provide long-term strategic directions on our journey to corporate sustainability, we have devised a sustainability strategy that is accustomed to our corporate culture and industry characteristics in 2019. The strategy is formulated with reference to our management policy and comprises four focus areas – Corporate Management and Governance, Operations and Supply Chain, Environmental Protection and Employees and Society. The distillation of the focus area is consolidated with the results of materiality assessments and reviewed by the Board.

Technology Changes the World

01 Corporate Management and Governance

- Ensure compliance with national laws and regulations, amongst other requirements
- Improve management control systems continuously to ensure effective governance
- Manage risks and opportunities effectively with assessment and monitoring

02 Operations and Supply Chain

- Strengthen quality production by enhancing quality control and product traceability
- Provide professional and attentive services to create values for customers and achieve customer satisfaction
- Manage suppliers holistically with considerations of sustainability attributes
- Promote innovations and creativity

03 Environmental Protection

- Control and reduce pollution by observing national standards and maintaining a comprehensive environmental management system
- Develop environmentally-friendly operations and products

04 Employees and Culture

- Be people-oriented by engaging, empowering and nurturing employees
- Improve occupational health and safety management to minimise workplace health risks and promote employee' well-being
- Strengthen corporate culture to maintain a good internal spirit

Continual Improvement and Pursuit of Excellence

To bridge our efforts with the sustainability commitment of the rest of the world, we have proactively considered the 17 SDGs adopted by the United Nations when formulating this strategy. It is our goal to leverage our profession to help resolve these global challenges, and to contribute to sustainable development in the greater context. To take a step forward, we might consider further aligning our sustainability strategy with the SDGs in the future.

Corporate Management and Governance

Rigorousness, Transparency and Compliance

"Rigorousness" is one of the corporate values we emphasise when it comes to corporate management and governance. This virtue, supported by our comprehensive management systems and procedures, ensures compliance, encourages good business ethics and safeguards business continuity.

Business Conduct and Ethics

Upholding business conduct is essential in building up trust with our stakeholders, especially with our business partners and employees. At O-Net, our operations are founded on the principle of "integrity" and "respect".

All kinds of corruption, including bribery, money laundering or fraud, are strictly prohibited in our operations. As affirmed in our Code of Conduct, 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. To increase our people's awareness in this regard, we require our management to pledge for their compliance to the Code of conduct and all staff members to undergo a self-check on their integrity annually. Our "Conduct Hotline" continues to provide an impartial whistleblowing channel for employees to report suspicious behaviour in a confidential manner. All reports received from the hotline have been investigated and handled diligently and honestly. We complied with the Interim Provisions on Banning Commercial Bribery (關於禁止商業賄賂行為的暫行規定) while no legal cases relating to corruption, money laundering or misconduct were brought against the Group during the Reporting Period.

Anti-Fraud Training for General Staff

Enhancing employees' capacity in dealing with business misconduct is effective in inhibiting potential loss in terms of company assets and credibility. In April 2019, we collaborated with the Pingshan Police Department to organise a series of anti-fraud training for our staff. The training introduced different types and characteristics of frauds and suggested proper ways to react to them. A total of 15 training sessions were held with approximately 4,000 participants from 12 departments.

Human rights are highly respected in our Group. All of our employees are hired in compliance with legal standards and requirements under the control of stringent human resources policy. As outlined in our "Child Labour Rescue Procedure", we strictly forbid the employment of child labour (under 16 years old). When a child labour is discovered in our operations, we will immediately terminate his/her employment contract, arrange medical check, and offer necessary transportation and monetary assistance to the child. On the other hand, underage employees (16-18 years old) are given privileges on their work duties and working hours. During the Reporting Period, we adhered with Law of the People's Republic of China on the Protection of Minors (中華人民共和國未成年保障法) and Provisions on the Prohibition of Using Child Labor (禁止使用童工規定). No child or forced labour was hired by the Group.

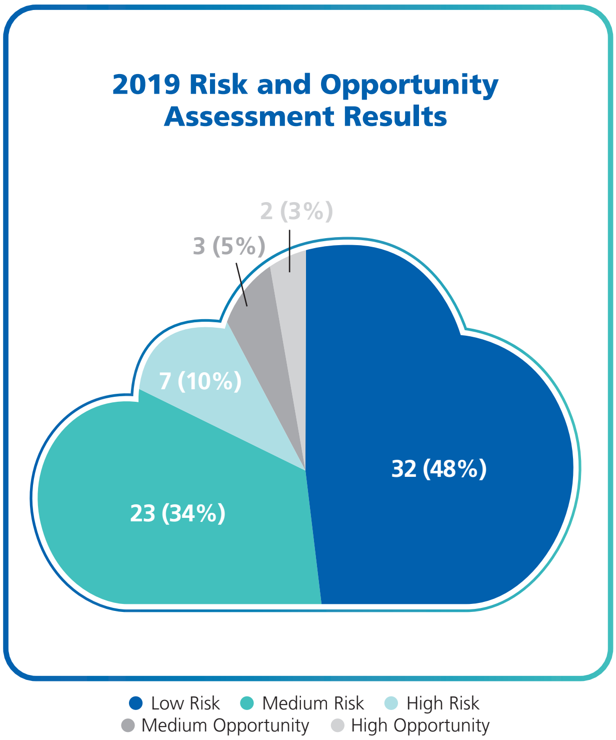
Corporate Governance

Effective and transparent corporate governance lays the cornerstone of corporate sustainability. At O-Net, we use the principle of transparency, accountability and fairness to establish strong and responsible governance. More information and details of our corporate governance structure are disclosed in the Corporate Governance Report.

Risk and Opportunity Management

Risks and opportunities emerge and decline rapidly in the globalised world. Exercising risk and opportunity management is hence vital for us to capture business opportunities, and prepare for risks and uncertainties.

We conduct analysis annually to distinguish and evaluate our risks and opportunities concerning quality, management, occupational health and safety and environment. In this annual practice, every department has to identify, evaluate and rate the impact and possibility of the potential risks and opportunities specific to their operations. We also require departments to devise responsive measures to medium and high-level risks and opportunities to facilitate management. The evaluation results are used to inform management for further operational or strategic improvement. During the Reporting Period, we identified a total of 62 risks and 5 opportunities. Among them, four are newly identified.



	Level	Quantity	Concerned Areas
Newly Identified Risks	Low	4	• Material supply under the influence of trade war • Climatic risks related to floods and storms • Change in Group's governance structure • Staff canteen and dormitory management

We constantly pursue to perfect our risk and opportunity management procedure. This year, we added and considered more factors relating to product recalls, product reviews, product failure and write-off, and product reassessment in the annual risk and opportunity evaluation. Looking forward, we shall continue to review and improve our assessment methodology for more effective management.

Business Continuity Management (BCM)

Business continuity management refers to the process of identification, prevention and mitigation of hazards. At O-Net, this process is overseen and supported by the Risk Assessment and Business Impact Assessment Committee, who carries out hazard identification and evaluation on a yearly basis. According to the evaluation results, we formulate relevant prevention, continuity and recovery plans to mitigate and control the hazards' disruption to our business.

Currently, we maintain 7 continuity plans. They are reviewed and audited annually to ensure their ongoing effectiveness. Continuity plans involving production and IT systems are further tested and drilled per year. Drill performances are then recorded and reported to the management for continuous improvement.

Hazards Considered in BCM

Epidemics, energy shortage, floods, fire outbreak, earthquakes, typhoons, single supplier, financial difficulties, labour disputes

O-Net's Continuity Plans

- Logistics
- Labour shortage
- Labour disputes
- Financial stability
- Failure in the supply of water, electricity or key equipment
- Accidents and hazards
- IT failure

Compliance with Laws and Regulations

Ensuring compliance is always our top priority. We maintain a list of local, regional and national laws and regulations that are applicable to our business and review it twice a year to keep our operations abreast of regulatory updates. We also conduct internal evaluation half-yearly to assess the implementation, efficiency, appropriateness and sufficiency of our measures in relation to regulatory compliance. Based on the results of the latest evaluation, we employed additional measures to improve our compliance performance regarding fire safety and occupational health and safety.

In 2019, we identified 8 new regulations that are relevant to our operations. They were carefully reviewed to assess if our current practices continue to fulfill the additional requirements, and no significant changes were needed.

- Technical specifications for occupational health surveillance (職業健康監護技術規範)
- Safety of Machinery - Permanent means of access to machinery - Part 3: Stairs, stepladders and guardrails (機械安全－進入機械的固定設施－第3部分：樓梯、階梯和護欄標準)
- Preventive test code of electric safety tools and devices (電力安全工器具預防性試驗規程)
- Safety requirements for fixed steel ladders and platform - Part 3: Industrial guardrails and steel platforms (固定式鋼梯及平台安全要求－第3部分：工業防護欄杆及鋼平台)
- Labour Department's Notice on Restrictions (勞動部關於嚴禁用人單位錄用職工非法收費的通知)
- Human Resources Social Security Department's Notice on Enhancing Recruitment Information Management (人力資源社會保障部辦公廳關於進一步加強招聘信息管理的通知)
- Shenzhen Workers Social Security Payment Ratio and Payment Cardinal Table (Starting from January 2019) (深圳市職工社會保險繳費比例及繳費基數表(2019年1月起))
- Regulations on paid annual leave for employees (職工帶薪年休假條例)

Innovation and Intellectual Property

At O-Net, we aspire to change the world with technology. It is our mission to create high value-added solutions for our customers through innovation, research and development.

Inspiring Innovation

Innovation is the driving force of our growth and development in the high-technology industry. In order to establish a culture of innovation, we have launched an incentive mechanism to inspire and stimulate creativity in our operations.

Cash Rewards

As a motivation to patent development, we reward patent proposers after patent application and patent approval with cash rewards respectively. Employees whose patents contribute to the company significantly during the year will receive additional reward as a token of appreciation.

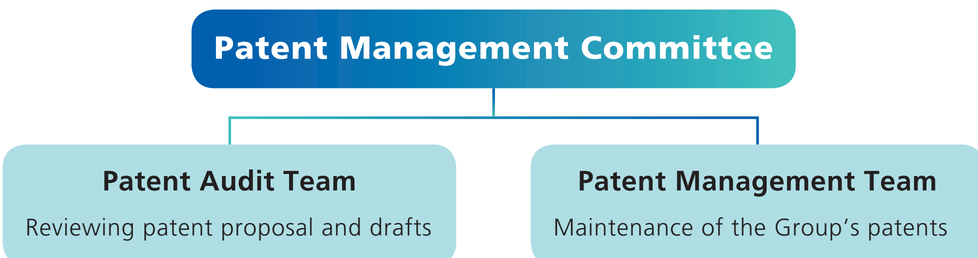
Competition for Continuous Improvement

Held annually, this competition aims at internalising the spirit of innovation within our employees and promoting the concept of "continuous improvement" in our operations. It creates a positive momentum within the Group to brainstorm and innovate constructive ideas that can enhance operational efficiency and quality. Teams with outstanding proposals are awarded accordingly.

Managing and Respecting Intellectual Property (IP) Rights

Our patents and innovations grant us competitive advantages and edges in the rivalrous high technology market. Managing our intellectual properties is therefore imperative to our sustained growth and development.

To promote and strengthen our patent management, we have implemented the O-Net Patent Management System during the Reporting Period. The system specifies the procedure of patent application, measures to maintain existing patents, and responsibilities of different concerned departments with regards to patent management. The system is backed by the Patent Management Committee, which is founded particularly for the management of patent-related matters. Their responsibilities include examining patent proposals, deciding on annual patent fee payment matters, reviewing group-owned patents, and revising patent management system when needed. In 2019, we submitted 101 (2018: 80) patent applications, including 42 utility patents and 59 innovation patents. Among them, 8 (2018: 4) were approved.



Apart from the aforementioned system and committee, employees are also encouraged to share the responsibility of patent protection. When employees report cases of violation and infringement to our IP rights, they will be rewarded accordingly.

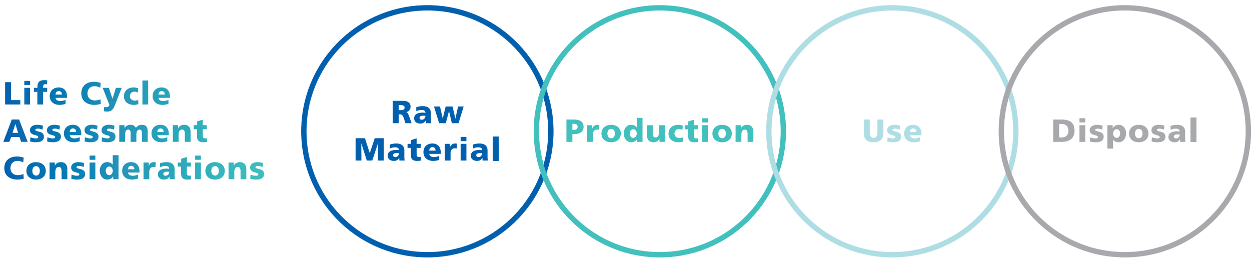
While we strive to safeguard our own intellectual property rights, we also respect innovations from other organisations. At orientation training, we promote awareness of the proper use of intellectual properties to minimise the risk of infringing others' intellectual property rights in our operations.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

Managing Risks of Innovation

Innovation is always associated with risks. Utilising new technologies, new materials or new tools bring us both opportunities and risks in terms of quality, safety and efficiency. We therefore require all innovations to undergo a holistic risk assessment at the early design stage to prepare for such uncertainties. Risks related to product reliability, durability, safety, material and environmental safety, material supply stability and production are considered and evaluated in the assessment. Mitigation plans are also required in the assessment to control the identified risks. The assessment is then carefully audited to determine if the corresponding innovation can proceed to the design stage.

Life Cycle Assessment

Life cycle assessment is a useful tool to manage environmental risks of our innovations. In this exercise, environmental factors of our products throughout their entire lifecycle are carefully assessed to determine the presence of significant risk or impact.



Factors being considered and assessed include energy efficiency, lifespan, radioactive properties, level of pollution, and recyclability and biodegradability of the material after disposal. The assessment results are used to advise management to make informed decisions in the subsequent stages of product development.

Information Security

As our world becomes more connected and technologically-driven, safeguarding technical and business secrets of our operations has become more challenging, yet more important. To preserve the interests of our Group and other business partners along the value chain, we put a high premium on data protection and information security.

Since 2017, we have employed the information steward system SAP to store and organise our consumer information. Numeric codes are utilised to replace customers' names in production. To further enhance our information confidentiality, we issued an Information Safety Management Protocol in 2018, which defines and details our internal standards on the management of documents, as well as code of practice on the use of electronic devices and hard drives, among others. Highlight of other measures to protect information security includes:

Information Security Management Committee

Being accountable for the formulation and implementation of information security strategy, standards and procedures, the Information Security Management Committee is the mainstay that assures our information safety. They also conduct regular assessment and risk analysis of the Group's information security situation.

Confidential Agreement

All employees have to enter into a confidential agreement with the Group upon recruitment to protect all business information owned by the Group. They are restricted from disclosing any technical or operational information to any third party without prior consent from the Group.

Information Security Training

To promote good practice in information handling, we organise trainings on information security for newcomers and general staff on a regular basis. Our standards on information security are introduced and explained in the training. During the Reporting Period, 838 employees participated in the training, which is 80% of the targeted number.

Report and Reward Mechanism

To encourage reports on risks relating to information security, employees are rewarded with cash bonus when a valid report on potential information leak or theft is made. Employees who provide constructive solutions to mitigate related threats are also rewarded accordingly.

Operations and Supply Chain

Deliver the Best Products with the Best Partners

Since establishment, our devotion to safety, efficiency, quality and sustainability in our operations has distinguished ourselves from other competitors in the market. We are committed to only collaborating with the best supply chain partners to deliver products of the best quality to our customers.

Product Safety and Responsibility

Ensuring product safety is our primary obligation as a manufacturer. We vigilantly observe applicable international regulations on the use of hazardous substances, as well as special hazardous substance free ("HSF") requirements imposed by our customers, to manufacture products that are safe and reliable in a responsible manner.

Our comprehensive quality control procedures serve as the first line of defence against hazardous substances in our products. From product development to product delivery, we remain scrupulous in implementing stringent HSF control and following requirements stipulated by our Product HSF Management Procedure.

Product Development

- Specify and record HSF requirements of the product
- Audit and review the authenticity and sufficiency of HSF documentations provided by supplier
- Evaluate influence of tools and machineries on the HSF characteristics of the products during production procedures

Production

- Separate and label operations and workshops that use heavy metals to avoid contamination with HSF production
- Monitor the practice daily

Delivery

- Label all HSF products before delivery

As an additional assurance to our product safety, we also appoint third parties to carry out independent compliance tests on a regular basis. In 2019, we submitted a total of 88 product samples for independent verification on their compliance to various international standards and regulations, including the Restrictions of Hazardous Substance Directive ("RoHS"), standards issued by the International Electrotechnical Commission ("IEC"), as well as various regulatory requirements from the United States and the European Union. All tested products passed their respective compliance tests. We recalled no products out of health and safety concerns during the Reporting Period.

Customer First

It is our corporate mission to help our customers create corporate value. We strive to establish ourselves as a trustworthy business partner by providing attentive and professional services, as we are convinced that customer satisfaction means customer loyalty, and customer loyalty means corporate success.

Customer Engagement

We are committed to providing the best customer experiences to our business partners by proactively engaging with them to understand their expectations and resolve their concerns. 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 tailored service to further achieve customer satisfaction in the following year. Other than that, we also organise meetings with selected customers to discuss their expectations regarding product cost, product quality and our production capacity. Specific goals and improvement measures are then formulated and introduced to meet the particular expectations. This form of interactive communication is undoubtedly effective in building up mutual trust and obtaining shared expectations, which are critical for forging healthy and friendly relationships with our customers.

Other than that, we continued to perform our annual customer satisfaction survey to monitor and manage our service performance in a comprehensive approach. During the Reporting Period, we engaged 20 customers through the survey and received an overall satisfaction score of 88.3, which exceeded the 2019 KPI requirement. The survey showed that we performed the best in areas of "communication" and "packaging and shipment", while improvements were expected in areas of "cost" and "problem resolving". Aiming for continuous improvement, we have set our long-term quality indicator on customer satisfaction as 90% by 2023. To attain this ambitious goal, we shall conserve our dedication and attentiveness in customer care, while enhancing our professionalism and competence in managing customer relations progressively.

Customer Care and Complaint Handling

We treat all customer feedback seriously, especially negative ones. To ensure all customer complaints are resolved in a professional and timely manner, we have developed a guideline with standard procedures to handle customer dissatisfaction.

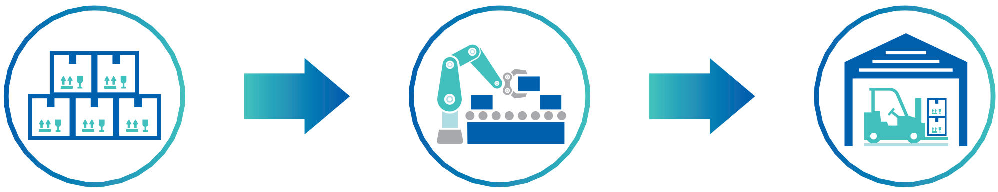
In general, all departments are required to prioritise complaints handling in their agenda and process them within the agreed timeframe. Depending on the severity of the complaint, a "Problem Resolution Process" ("PRP") team might be initiated to analyse the cause, determine accountability and formulated preventive and remediation measures. Relevant departments are also held accountable to monitor the implementation and effectiveness of the corrective measures. All tasks are then detailedly recorded and submitted to concerned customers for their reference.

During the Reporting Period, we have received 4 major complaints related to product functionality, appearance and quality. A total of 158 pieces concerning 4 types of product were affected and returned. All returned products were inspected and scrutinised honestly to identify the cause of defection for future reference and improvement.

Efficient and Quality Production

We place great emphasis on maintaining the efficiency and quality of our production. From raw material to delivery, we seek to be punctilious in all stages of production to produce the best product available in the market. Given the support from our quality management systems and our competent staff, we are convinced that efficiency and quality will continue to be our edge over other competitors.

Our production is governed by multiple internal guidelines on quality assurance and standardised production procedures, which are strictly followed at all times. As a rule of thumb, all employees have to be trained and tested before commencing their work at the workshops. Highlights of our quality assurance measures with reference to each production stage are listed in the following table:



Incoming Materials

- Select random samples from each batch of incoming materials depending on the material type, purchase quantity, and supplier's past records in raw material quality for quality inspection
- Record details of the inspection in a central database for easy reference
- Compile "Supplier's Incoming Material Report", which includes size, appearance and other test reports of the raw material, and upload it on the centralised database

Production

- Maintain a stable and desirable production environment by installing humidifiers, air filters, air shower rooms and equipment for electrostatic control
- Require workers to wear uniforms to avoid contamination
- Arrange mandatory orientation training for employees to ensure their craftsmanship and competence
- Set up automated quality inspections
- Perform in-process quality assurance daily to identify procedural non-conformities and rectify them in a timely manner

Storage

- Maintain the physical conditions of storage area
- Store different types of materials and products in separate areas according to their characteristics
- Inspect storage area monthly to assess if the above measures are implemented properly

To deliver the best products and services to our customers, we proactively seek opportunities to improve our operations. In 2019, we pursued a few operational advancements to enhance our efficiency and quality:

Material Planning System

As an enhancement to the efficiency of our production system, we have introduced a Material Requirement Planning system to our operations since 2018. The system's objectives are to ensure material supply and production quantity by sophisticatedly planning our manufacturing activities, purchasing decisions and delivery schedule. In 2018, the system was tested and fine-tuned to confirm the accuracy of the computation.

Digitalisation

As a high-technology company, we proactively embrace the improvement opportunities brought by digitalisation in our operations. To strengthen our production-planning ability and to improve traceability of our products, we have set goals at 10 major aspects for IT standardisation in the coming years. When completed, the digitalisation would create a web of information within our operations for more accurate, more efficient and more informed decision making.

Product Lifecycle Management ("PLM") System

In 2019 we introduced a PLM system to our operations. PLM refers to the strategic framework in which information involved in the design, production, maintenance and retirement of a product is processed into meaningful input in managing the cycle of a product. It uses extensive data to inform every decision within the lifecycle of a product, hence improving our resource efficiency, our services reliability as well as product quality.

Management Control System

Our efficiency and quality are also supported by our integrated management system ("IMS"). As of 2019, our IMS has been certified with numerous international quality standards, which govern quality, safety and environment practices, among others. The standards we follow are:

- 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

During the Reporting Period, we conducted an internal audit on the efficiency and applicability of our management system in accordance with ISO 9001, TL 9000, ISO 14001 and OHSAS 18001. 17 Departments participated in the audit in the 2-day review period. Audit results confirmed our compliance to the standards. Our IMS were also audited against the same standards externally by an independent consultant in 2019, the results of which further ensured our system's compliance to the standards.

Our employees also play an important role in ensuring compliance of our operations to our IMS. To educate our staff with basic knowledge of ISO systems, all newcomers have to attend an ISO standards training session during orientation. Our Chief Quality Inspectors also undergo re-trainings regarding quality management offered by the government on an as-needed basis.

To cope with our escalated business growth, we actively search for opportunities to enhance the capacity and functionality of our IMS. Since 2017, we have interconnected our IMS with SAP, FIS[1], OA[2] and WMS[3] for easier management. In 2018, we started considering and incorporating the IATF16949 International Standard for Automotive Quality Management Systems in our operations. Until the end of 2019, the standard had been introduced to most of the internal documentation and procedures. The corresponding certification is expected to take place in June 2020.

Sustainable Supply Chain

With increasing global awareness on supply chain sustainability, we are committed to impose more stringent and comprehensive control on the social and environmental performance of our procurement activities. By closely engaging with our supply chain partners, we strive to progress hand in hand with our suppliers and develop a sustainable future together.

We have comprehensive policies in place to manage the transparency, integrity and sustainability of our supply chain. To ensure their applicability to our expanding operations, as well as to respond to the rising appetite of our stakeholders towards supply chain sustainability, we have reviewed and updated our policies extensively during the Reporting Period. The updated policies are expected to better control supply chain risks and further encourage quality and sustainability performance of our suppliers.

Responsible Procurement

Our procurement has a direct influence on the quality, safety and even ethics of our products. In light of that, we have imposed rigid restrictions and control on our procurement activities to ensure our purchases are always socially and environmentally responsible. We have three overall commitments in this regard:

1 Financial Information System

2 Office automation

3 Warehouse Management System

Commitment 1: Conflict-Free Sourcing

Avoiding or eliminating the use of conflict minerals is an important issue in the electronics industry. We demonstrate our devotion to conflict-free sourcing by implementing the O-Net Conflict Minerals Policy, which is developed with reference to the Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas from the Organisation for Economic Co-operation and Development (OECD). Interested parties can refer to our corporate website for the full version of the policy.

Our determination in engaging our supply chain in conflict-free procurement has obtained a major achievement. In 2019, 100% (2018: 80%) of our suppliers pledge their compliance to our conflict-free sourcing initiative. We shall continue to perform due diligence and engage our suppliers to ensure our minerals come from legitimate and ethical sources.

100%

of suppliers pledge to conform to our conflict-free sourcing initiative (2018: 80%)

Commitment 2: Corporate Social Responsibility

We take our corporate social responsibility seriously, and expect our suppliers to do the same. All suppliers from the approved vendor list are required to enter into a supplier Code of Conduct and a corporate social responsibility agreement that regulate their operating practices regarding labour rights, workplace health and safety, environmental protection, business ethics, supply chain social responsibility management and corporate social responsibility management.

The corporate social responsibility agreement was reviewed and updated in 2019 to incorporate more precise descriptions on the code of practices regarding the aforementioned aspects. The new agreement now includes terms related to the provision of social insurance, health inspections for employees who are exposed to occupational risks, pollution control, energy conservation, emission reduction, product environmental requirements, intellectual properties and conflict-free sourcing, among others.

73%

of suppliers signed the corporate social responsibility agreement (2018: N.A.)

Commitment 3: Pledge to HSF Materials

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 2019, 85% (2018: 84%) of our approved suppliers pledged to use HSF materials exclusively, while 2 batches of incoming materials failed our HSF standard for containing excessive amounts of heavy metals, all of which were sent back to the respective suppliers.

85%

of suppliers pledged to use only HSF materials (2018: 84%)

Fair and Transparent Procurement Practice

Fairness and transparency are the fundamental elements of a healthy and sustainable supply chain. At O-Net, all procurement decisions are made based on virtues, and free of human manipulation.

We have several policies in place to ensure our procurement practices are fair and just. They define our standardised sourcing procedures and regulate the work ethics of our procurement team. As a general rule, the policy requires quotations from at least three suppliers for each procurement to ensure a fair comparison on price and quality. In addition, we select several procurement orders randomly every month to assess if the corresponding procurement decisions are made justly and fairly. If malpractice is confirmed, relevant personnels will be warned or dismissed depending on the severity of the misconduct. Apart from our procurement team, we also work closely with our suppliers to further confirm the integrity of our supply chain. At the supplier development stage, we require all potential suppliers to enter into an anti-bribery agreement as well as a non-disclosure agreement to assure they will abide with O-Net's code of conduct. No misconduct cases relating to procurement were reported during the Reporting Period as a result of our effective management.

During the Reporting Period, we revised our Procurement Control Procedures to provide additional guidance on the selection, management and assessment of courier service providers and suppliers of sockets, plugs and cables. We shall continue our potent management to ensure ethics are upheld in our procurement activities.

Supplier Management

A poorly managed supply chain exposes the company to risks economically, socially and environmentally. Through regular assessment, we manage our suppliers' quality and service performances regularly to minimise potential disruptions to our supply chain.

Supplier Qualification and Assessment

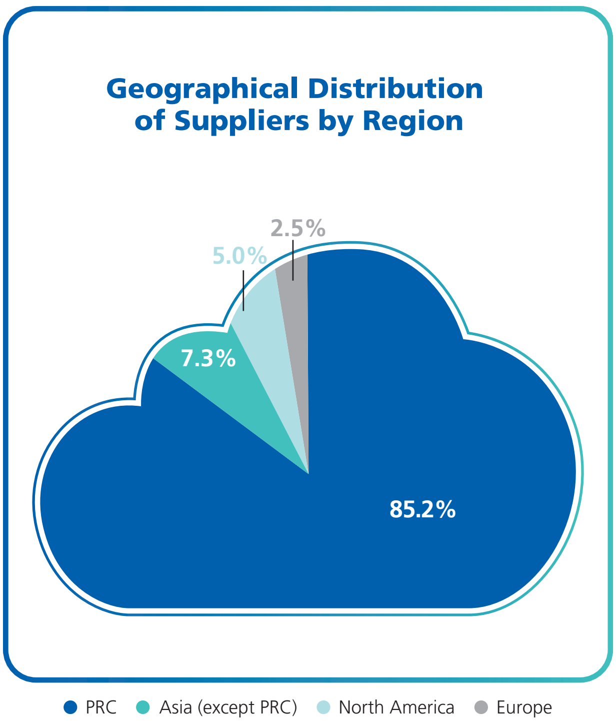
One of the strategic objectives of our supply chain management is to "eliminate the weak and retain the strong" (汰弱留强). This objective can be sufficiently fulfilled by conducting supplier qualification and assessment. Through the following routine procedures, we aim to establish a pool of preferred suppliers with high competence, high quality and high reliability.

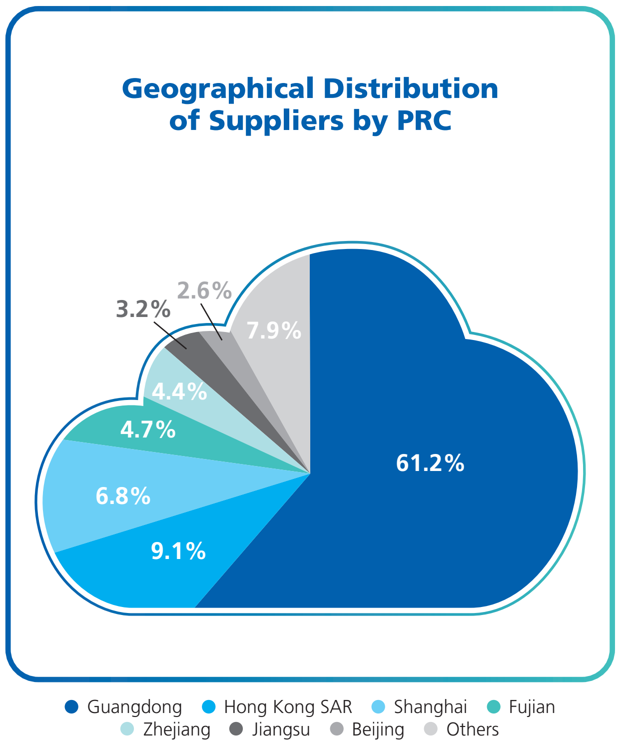
New Supplier Certification	• Conduct comprehensive evaluation on potential suppliers' policies and operations regarding quality system, social responsibility, RoHS, environment, health and safety and operational management • Audit the authenticity and sufficiency of documentation provided by the supplier including applicable licenses and other certifications • Perform quality inspection on the sample product provided by the supplier • Carry out site audit to suppliers of important materials and require corrective actions when malpractice is discovered
Daily Management	• Monitor suppliers' performance on quality and delivery monthly • Send "Supplier Corrective Action Request" to under-performing suppliers and supervise their improvement • Formulate annual site visit plan to conduct site audit at supplier's production base and require corrective actions when malpractice is discovered

Regular Assessment	• Conduct holistic assessment half-yearly and yearly to evaluate selected supplier's performance regarding quality, delivery, price and service • Grade suppliers according to assessment results, prioritise grade A and B suppliers during procurement • Communicate assessment results with respective suppliers and encourage their continuous improvement until they reach grade A or B
Disqualification	• Disqualify suppliers with continuous unsatisfactory performance (e.g. Rated as grade C suppliers in 3 consecutive assessments) • Forbid procurement and re-certification of disqualified suppliers in a one-year period

Supplier Profile

As of 31 December 2019, we have a total of 399 approved vendors. Geographically speaking, the majority (85%; 2018: 87%) of our approved suppliers are located in the PRC, while the others are located in countries such as the U.S., Taiwan, Japan, Malaysia and Italy. We strive to source regionally so as to minimise supply chain risks relating to transportation and customs, as well as to reduce the environmental footprint of logistics. However, sourcing from overseas partners is still indispensable due to patent and technological considerations.





Environmental Protection

Manage to Conserve

The environment is a common treasure that should be conserved by all, especially by governments and corporations, whose decisions have a big influence on the fate of our nature. At O-Net, we are determined to shoulder our corporate responsibility to safeguard the well-being of the environment by managing and minimising our environmental footprint.

Environmental Management

Our environmental management system ("EMS") is certified with ISO 14001 and developed with observance of applicable local, regional, national and international environmental regulations. To support our EMS, we have also implemented multiple policies to monitor and control our operating procedures with regards to pollution control, chemicals management and energy conservation, among others.

One of the key objectives of our environmental management is to achieve environmental "excellence". KPIs and goals are therefore set out every year to promote continuous improvement. During the Reporting Period, all environmental targets were met due to our robust management. Specific targets will be discussed in the following sections.

Our Environmental and Occupational Health and Safety Committee also provides substantial support to our environmental management work. They play a vital role in overseeing the execution of our environmental policies, as well as ensuring the applicability and effectiveness of our EMS. By regularly engaging with the frontline employees, the committee also serves as a bridge that connects strategies and policies with implementation and execution.

Emission Control

Controlling and reducing emissions is our priority concern and our corporate sustainability strategy. Major emissions arising from our operations include air emissions, water emissions and carbon emissions. Chemical leakage, even though not a regular emission source, appears as a potential emission when handled inappropriately. All of the existing and potential emissions are effectively managed by our well-developed EMS and its supporting policies. Our EMS also encourages best practice and continuous improvement in our operations to achieve environmental excellence.

Details of our control measures regarding carbon emissions and water emissions are discussed in their respective sections.

Exhaust Air Emissions

Exhaust air emissions of our operations originate from three sources - production, staff canteen and our fleet. We strive to maintain our emissions within the regulatory limits by always following the requirements of our EMS, and regularly monitoring our emissions levels.

	Production	Staff Canteen	Fleet
Major Air Pollutants	Benzene, toluene, xylene, non-methane hydrocarbons, lead and it compounds, tin and its compounds	Oily fumes	Particulate matters, volatile organic compounds, nitrogen oxides, sulphur dioxides
Monitoring or Mitigation Measures	Engage third party laboratory to conduct monitoring annually	Engage third party laboratory to conduct monitoring annually	Employ only electric buses for staff shuttle services Maintain company vehicles regularly
Monitoring Results	Complied with Guangdong Emission Standard of Air Pollutants (廣東省大氣污染物排放限值)	Complied with Guangdong Emission Standard of Air Pollutants (廣東省大氣污染物排放限值)	Currently, we do not have a monitoring system in place for our fleet

Control on Chemicals

Given our industry nature, our operations inevitably involve the storage, application and disposal of chemicals. To minimise the chance of chemical leakage, we apply rigor in managing our chemicals in a safe and responsible manner.

Before introducing a new chemical to our production, we perform a compulsory safety audit to determine the flammability, explosiveness, toxicity, acidity or alkalinity, corrosiveness and environmental toxicity, among others, of the specific chemical. Based on the audit results, a "hazardous grading" will be assigned to the specific chemical while recommendations regarding the usage, dosage, and disposal method of the chemical will be proposed. This ensures safe, appropriate and responsible management of each and every chemical involved in our operations.

In general, all chemicals are labelled, and centrally stored in a designated chemical warehouse before being assigned to concerned departments. Out of safety and management considerations, chemicals of different properties are stored separately in the warehouse, where stable and desirable physical conditions are maintained and monitored. To manage the risk of chemical leakage, we equip the warehouse with a leakage-proof design by connecting the floor of the warehouse to an underground collection tank with diversion ditches and pipes. Other than that, all hazardous chemicals are securely stored in a double-layered container, where the outer container has a 110% capacity of the inner one to provide further certainty to our anti-leakage control. When chemicals are distributed to concerned departments, they are properly stored in anti-leak trays in specific chemical cabinets according to their properties. Our measures towards chemical management are sufficiently monitored regularly by competent personnels.

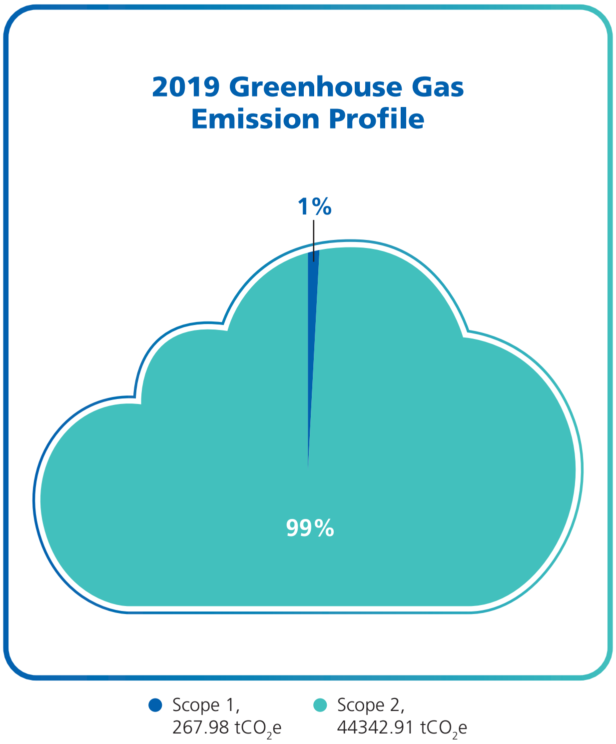
During the Reporting Period, we complied fully with Regulation on the Safety Management of Hazardous Chemicals and Rule for Storage of Chemical Dangers, and recorded no chemical leakage incident.

Carbon Management

We have been confronted with climate-related disasters more intensively and more frequently in the past years. As the window of time to reduce emissions narrows, managing carbon emissions has become an urgent and crucial task for governments and corporations worldwide. At O-Net, we are committed to lowering our carbon emissions progressively by improving our energy efficiency and engaging in the Shenzhen carbon trading market.

Emission Profile

We must understand our emission profile before formulating any meaningful measures to curtail our emissions. This year, we continued to collaborate with a third party consultancy to evaluate our emissions during the Reporting Period. For easy comparison with past data, the scope continues to include direct emissions and indirect emissions from energy generation.



[4] Usage of natural gas at the outsourced canteens were excluded in the calculation of the total GHG emissions.

Similar to last year, 99% of our greenhouse gas ("GHG") emissions arose from scope 2 – energy indirect emissions, while the remaining emissions were contributed by fuel consumption from our fleet and our staff canteen in light of that, we have implemented comprehensive energy management and introduced measures to improve energy efficiency in our operations. Please refer to section "Energy Conservation" for more details of our efforts to lower our energy consumption.

Carbon Trading

Carbon trading pursues to manage emissions with a market-based approach. As a leading corporation in the industry, our Group has been invited to participate in the pilot carbon trading market in Shenzhen in 2017, and has been curtailing our emissions through trading carbon credits in the market since then. The pilot programme in Shenzhen covers approximately 40% of the city's emissions.

In 2019, the Shenzhen Ecology and Environmental Bureau (深圳市生態環境局) reviewed our GHG emissions data and assigned a number of carbon credits to our Group. After offsetting our emissions with the credits, we compensated our extra emissions through trading credits in the market. All credits trading was finished in June 2019.

Water and Sewage

Water is a precious resource that our Group strives to conserve. In our operations, we utilise water mainly for product cleaning during production or for domestic purposes. To promote water conservation, we put up water-saving posters at the workplace and inspect water pipes and tabs daily to prevent leakage. Our Group also has a robust culture of water recycling to fully utilise the resource. Rainwater from our rainwater collection system and treated sewage from our sewage treatment facility is given a second life for landscaping, housekeeping and certain purposes at production. In 2019, we consumed 392,216.84m^3 of virgin water.

Zero Industrial Sewage Emission Commitment

Emitting zero industrial sewage is one of our long-term commitments to the environment. To fulfil this ambition, we have built an onsite sewage treatment facility to process sewage originates from our production. We closely monitor the water meter level monthly to detect anomalies and malfunctioning of our treatment procedure. To ensure the ongoing effectiveness of our sewage treatment, we contract an independent consultancy to inspect the quality of our treated sewage against Guangdong Regional Discharge Limits of Water Pollutants quarterly. All monitoring results were satisfactory during the Reporting Period. For more details of the inspection, please visit our corporate website for the full version of the monitoring report.

In 2019, the facility treated approximately 9,000 m^3 of wastewater and we achieved our environmental KPI of "zero industrial sewage discharge". Domestic sewage from our premise is also observed and tested annually by an environmental consultancy. In 2019, inspection results also complied with the Guangdong regional standard.

Sewage from Kitchen

Apart from sewage originating from our production activities, we are also rigorous in controlling effluent emissions from our staff canteens. Before discharge, all waste water from our kitchen is intercepted by an oil and grease filter, where greasy particles are separated. The oil tank that stores intercepted grease was modified and expanded in 2018, while we also built three new oil and grease tanks during the Reporting Period to further enhance our capacity on kitchen sewage handling. A professional service provider is also commissioned to clean the interceptor weekly to maintain the efficiency of the filtering process.

Materials and Waste

Natural resources are limited. To secure resource availability for our next generations, we must optimise our resource efficiency and decouple our growth with resource consumption.

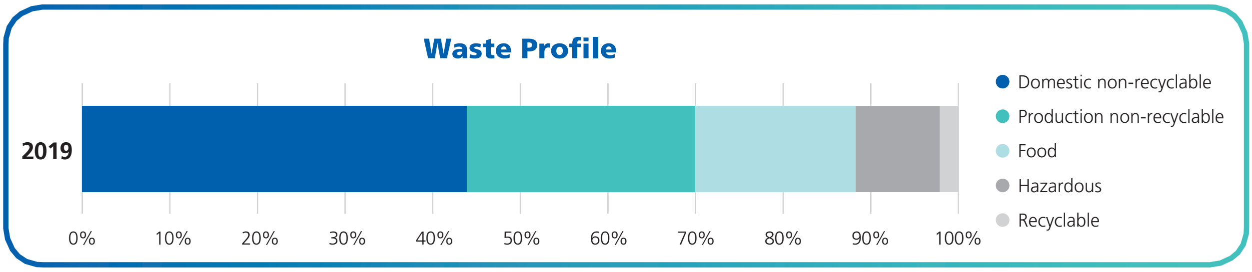
Packaging Materials

To reduce the use of virgin packaging during internal transitions of semi-finished products, we have formulated a standard guideline to reuse certain packaging materials internally within our operations. By properly collecting, cleaning and storing the packaging materials, it is our goal to maximise their lifespan to use minimal resources and create minimal waste.

On the other hand, packaging for our finished products are mainly arranged and requested by our customers. The lack of flexibility also imposes difficulties in reducing related consumption. However, we assure that there is no over-packaging in our products. During the Reporting Period, we consumed approximately 70 tonnes of plastic, 65 tonnes of carton boxes and 24 tonnes of sponge.

Waste Management

By improving resource efficiency, we also indirectly reduce the amount of waste we generate. At our facility, we generate five types of waste: recyclables, non-recyclables, hazardous waste, food 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 licensed service providers appointed by the Group according to Law of People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste.



In 2019, we attempted to understand our non-hazardous waste profile for the first time by estimating the annual production amount of domestic non-recyclable waste, food waste, production non-recyclable waste and recyclable waste. The estimation of domestic non-recyclable waste, food waste, production non-recyclable waste and recyclables was based on extrapolation of either daily or monthly production at the premise. It is estimated that we generated approximately 600 tonnes of domestic non-recyclable waste, 250 tonnes of food waste, 360 tonnes of production non-recyclable waste and 34 tonnes of recyclable waste (12 tonnes of plastic, 12 tonnes of metals and 10 tonnes of paper). This preliminary estimation offers us a brief overview of our non-hazardous waste composition for more informed and comprehensive reduction measures.

As for hazardous waste, we have a more systematic mechanism in place to record the amount we produce annually. During the Reporting Period, we produced 129 tonnes of hazardous waste including organic solvent, sludge and contaminated tools. Given their hazardous nature, they were handled with due care and managed by additional control measures. In general, all hazardous wastes are kept in an isolated hazardous waste storage area before transferral to relevant suppliers. We also arrange orientation and regular training for employees whose duties involve the handling of hazardous waste to improve their competency and raise their awareness in this regard. In 2019, 100% of our hazardous waste was sent to the appointed supplier for further handling and responsible disposal.

Energy Conservation

As our society becomes more environmentally-savvy, energy conservation has slowly turned from a "good deed" to a corporate responsibility. At O-Net, we embrace this responsibility by establishing an energy management system ("EnMS") to control all of our activities that consume energy. Certified with ISO 50001 Energy Management System Standards, our EnMS provides systematic management to our energy use and efficiency. In 2019, the system's effectiveness and compliance to the standards were confirmed in an internal audit.

Based on the four principles of our energy policy, we have developed multiple initiatives and procedures to enhance our energy management and performance. It is our goal to contribute to sustainable development by improving our energy efficiency and lowering our energy consumption. The following table presents the energy management measures we adopted in 2019.

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 to instil an energy-saving culture
- Analyse energy use and implement operational change to improve energy efficiency accordingly. In 2019, the Group supported the following initiatives and saved 471,545 kWh of electricity:
    - Reorganised layout of the production area to share air-conditioning
    - Employed emergency lighting system instead of regular lighting system along aisels
- Enhance energy efficiency of existing equipment. In 2019, the Group performed the following measures and saved 193,139 kWh of electricity:
    - Replace mercury lamps with LED light tubes
    - Recycle heat from the central air conditioning system for hot water supply
    - Replace old equipment with energy-efficient alternatives
    - Install solar-powered outdoor lightings
- 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

Our People and Culture

Making Our People Proud

Our people and our culture are integral to our business. To acquire and retain the best talents, we aim to foster a workplace where our values are manifested, and where our people feel safe, respected and proud to belong to. We believe our strong workforce and clear corporate culture will remain the core competitiveness of our Group.

Reinforcing Our Corporate Culture

For years, we have embedded and rooted our corporate culture into our operations with an aspiration to connect our employees with our corporate mission, boost team morale and strengthen employees' sense of belonging to the Group. To systematically consolidate and cultivate our corporate culture, we devise sophisticated plans to publicise our corporate culture annually. Below are the highlights of our corporate culture events held in 2019:

Customer and Business Oriented | Work Hard | Unity is Key | Outstand Pupils Are Trained by Strict Teachers

- Quarterly Corporate Culture Sharing Session

Open discussions and case studies are analysed in these sharing sessions to root and promote our corporate culture within our staff.

- "Floating" Library

Our culture and values are sometimes illustrated in books and other materials. Every quarter, our directors will recommend three books that exhibit the ideal qualities of "O-Netese". The books are then circulated among our staff while reflections are collected and published on our internal newsletters.

- Culture Wall

We encourage departments to build and decorate their own "culture walls" to showcase their team achievements or events that demonstrate the spirit of our culture and values.

- Management Conference on Corporate Culture

To effectively instill our corporate culture into our business, it is particularly important for our management to acknowledge the essence of our values and exemplify them in daily management. An interactive conference on corporate values was therefore arranged for our management to reinforce their understanding in this regard.

Wisdom | Credibility | Empathy | Courage | Rigorousness

Occupational Health and Safety

We hold ourselves to the highest standards when it comes to safeguarding the health and safety of our employees. At O-Net, occupational health and safety ("OHS") is managed by our IMS and a wide range of OHS measures, which aims at improving our OHS performance by enhancing employees' capacity, monitoring our performance and mitigating relevant risks.

Capacity Building

Our employees play a critical role in ensuring our OHS measures are properly executed. To equip our people with the necessary skills to implement our OHS policies, relevant training programmes are arranged for both newcomers and safety officers regularly. We also re-evaluate the qualifications of employees who are responsible for OHS management, as well as those who are exposed to OHS risks, annually. Fire drills and emergency drills of accidents relating to the use of special equipment and chemical leakage are also conducted annually to raise awareness.

Regular Inspection

We perform regular inspections on the implementation of our OHS measures. The key focus areas of inspections include fire prevention, use of personal protection gear, waste handling and chemical management. Apart from checking on our measures, we also provide regular health inspections to staff who are exposed to OHS risks to monitor their health situation.

OHS Risk Identification and Evaluation

Our OHS measures are supplemented by the OHS risk identification and management, which allows early identification of OHS risks and timely remedy before the danger actually occurs. OHS risk assessment is conducted internally by the Group and externally by a third party consultant every year. The results are meaningful input to our OHS management.

	Internal OHS Risk Identification and Management	**External OHS Risk Identification and Monitoring**
Frequency	Annually	Annually
Methodology	Engage all departments to identify OHS risks in their operations and rate the risk level according to their specific likelihood, exposure and consequence	Identify all work positions that are exposed to OHS hazards and perform quantitative monitoring by collecting and analysing samples of air, noise and radiation
Results	A total of 4 major OHS hazards (fire and explosion, electric shock, burnt and injury from machine operation) concerning 222 activities were identified	A total of 128 locations with OHS risks were sampled to compare against the Occupational Exposure Limits for Hazardous Agents in the Workplace Part 1: Chemical Hazardous Agents and Part 2: Physical Agents. This year, four of the chemical health risk test points and five of the physical risk test points exceeded their respective limits.
Remedial Actions	Manage all major risks by implementing operational control, devising contingency plan, organising training and performing regular monitoring	Ensure employees are equipped with personal protective gear such as masks, gloves and earmuffs. When applicable, low-toxicity chemicals are used to replace high-toxicity ones to minimise employees' exposure to poisonous chemicals.

Food Safety

Ensuring food safety is also among our occupational health and safety agenda. As an assurance to the safety of food and beverage served at the staff canteen, we contracted an independent laboratory to conduct monthly safety assessment against national standards. Test results were disclosed transparently via our WeChat channel and published on information boards at our premises.

Work-Life Balance

A healthy lifestyle should be constituted by a balance between work and non-work factors. To alleviate anxiety from everyday work and to construct a lively workplace, we organised leisure activities of varied nature for our employees every year. Several after-work sports clubs were also set up to provide employees with channels to vent their stress while establishing healthy social circles with other staff members. Details of the activities are described in section "Engaging the Community".

During the Reporting Period, we recorded 3 cases of work injury. We have offered necessary assistance to the concerned employees to support their timely recovery. We complied with Production Safety Law of the People's Republic of China (中華人民共和國安全生產法), Regulation on Work-Related Injury Insurances (工傷保險條例) and Measures for the Administration of Contingency Plans for Work Safety Incidents (生產安全事故應急預案管理辦法).

Employee Development

To our people, O-Net is not only a workplace. It is also a platform where they realise their personal potential. For the past years we have been investing heavily in our staff development programmes to cultivate our people's talents, as we believe only flourished employees can bring about a flourished corporation. In 2019, we arranged 75 training programmes of extensive topics to groom our employees with specific skill sets that are not only beneficial to their professional growth, but also to our corporate development. Highlights from our training sessions are shown below.

“Superb Team Leaders” Training Programme

Aiming to nourish leaders at the junior level, we recruited 48 participants across 8 production units to join the 3-month team leader training programme. The training was constituted by lectures, examinations, projects, consultations and performance reviews. Alongside with practical management skills, the programme also pushed participants to apply textbook knowledge to their work in a practical manner. To ensure these junior leaders have incorporated their newly acquired skills into daily management after the training, we follow up with their work performance on an ongoing basis to promote continuous improvement.

2019 Graduate Training Programme

Our 2019 annual graduate training programme took place in July with 37 graduate participants. The 16-day training programme aimed at assisting the graduates to transition their roles as students to “O-Netese” smoothly by offering lectures, outward bound training, dialogues with management and seniors, outings and practical internship. This year, we also paired each graduate with a mentor to provide additional professional and even emotional support to these freshmen.

Continuous Training for O-Net Internal Instructors

To flourish our internal instructors’ skills and enhance their qualities as a teacher, a one-day training programme was arranged for 46 potential and certified instructors in September. Topics related to curriculum design, emotion management and problem-solving framework were introduced and discussed. Upon completion of the training, we proudly certified 18 new instructors to join us in the journey of capacity building.

Product Introduction Programme

Our telecommunication products can be quite scientific for employees without technical background to comprehend. In light of that, we held a series of product introduction sessions to explain the concepts and operating principles behind our products, such as 5G, optical fibre laser, E-cigarettes and optical module. Employees gained a better understanding of the characteristics, market position and competitiveness of our products after the training. It is hoped that the sessions could give an overview of our business to our employees and motivate them to work with us and fulfil our vision of changing the world with technology.

Five Tools of Quality Control

To enhance our quality management and facilitate the introduction of IATF16949 management system into our operations, a training on the "Five Tools of Quality Control" was held for our management personnel. The training enabled better project planning, quality control, prevention control and continuous improvement through a series of case study, Q&A sessions and interactive engagement.

Other than the above highlighted trainings, we also organised the following training regularly or as needed:

- Orientation Training
- Project Management Training
- Management Technique Training
- English Training
- Departmental Training

Employee Engagement and Well-being

An engaged and satisfied workforce has a lower turnover rate and produces better results. We strive to understand and resolve our employees' concerns by establishing communication channels that are easy, reliable and personal. Currently, our employees can express their thoughts and opinions on the Group's operations through WeChat text messages, emails, comment boxes, training feedback surveys, dismissal interviews and regular meetings.

Traditionally, our communication approach is tiered. Major flaw of this communication structure is the faults between general staff and top management. To compensate for this shortcoming, we set up a new engagement channel called "Letterbox of Executive Director" to allow direct reflections to the top management in 2019. Ideas and feedback received from this channel will advise our Executive Director on the Group's operations and management in the future.

Apart from engaging with our staff, we are also committed to promoting their well-being. To enhance food safety and provide a better dining experience for all, we negotiated with our catering service provider, and gave concrete recommendations on issues related to hygiene and quality. QR codes are also installed at the canteen now for easy feedback and comments. We have also organized a series of activities for employees' well-being, as detailed in the "Engaging the Community" section.

A Fair and Attractive Workplace

Fair workplace practices are vital to attract talents and retain 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 social insurance, staff dormitories, adequate training opportunities, performance reward and bonus, among others.

Fairness and respect to human rights are the core values of our talent management. When it comes to recruitment, promotion or any matters related to human-resources, we adopt a competence-based approach and evaluate our people justly based on their ability, talent and performance. To uphold human rights, we also forbid all kinds of discrimination, while ensuring our staff's freedom of association and right to collective bargaining are being protected in our operations. Management engages with representatives from the staff association regularly to promote mutual understanding on concerned issues. A grievance system is also set up for employees to report any unfair workplace practices to the management, who will arrange investigation and implement timely remedies.

Pledge for Fair Recruitment

To highlight our commitment to fair recruitment practices, we began our campus recruiting with a pledge to integrity. We invited all internal interviewers to join an information session where good recruitment practices were emphasised. The session ended with the interviewers swearing in unison, to always be just and fair at the recruitment events ahead.

During the Reporting Period, we complied with the Trade Union Law of the People's Republic of China (中華人民共和國工會法), Employment Promotion Law of the People's Republic of China (中華人民共和國就業促進法) and Regulations of the Shenzhen Municipality on the Wage Payment to Employees (深圳市員工工資支付條例).

Engaging the Community

Community engagement has always been our passion. By arranging leisure activities for our staff and participating in community events, we aspire to create positive impacts in the community.

O-Net Community

The O-Net family comprises more than 1,800 employees, which makes us a small community ourselves. Every year, we organise activities of diverse nature to cater to the well-being of our people and reinforce the sense of family within the community.

Festive Greetings

We treat our employees as our family. During important festivals such as the Mid-Autumn Festival and the Dragon Boat Festival, we always seek to share festive joy with our employees by distributing gift boxes and snacks. These festivals also serve as important channels for us to express our thankfulness towards our employees for their ongoing dedication and hard work.

Chinese Valentines' Day

Traditionally, Chinese Valentines' Day is celebrated at parks with riddles in lanterns. This year, we turned the lobby into a large carnival where mini games and lantern riddles were prepared. Attractive prizes were given out to those who could solve the riddles. Our staff had a fabulous time bonding with their colleagues and went home with prizes in their hands.

Make-Up Workshop on Women's Day

On Women's Day, we paid tributes to our female employees by organising a make-up workshop. The workshop was hosted by a professional make-up artist, who shared make-up and styling tips to our employees via a live demonstration. Snacks were also provided at the workshop to ease off our staff's tension from work.

O-Net Family Day

In June 2019, we proudly organised the third O-Net Family Day. 500 gift surprises were prepared for and sent out to kids of different ages on the day. Each of the gifts represents our care to the employees and our gratitude to their service.

Teachers' Day

Our internal instructors play a vital role in ensuring the demand of internal capacity building is fulfilled. To express our thankfulness, we prepared heartwarming gifts for our internal instructors during Teachers' Day.

O-Net Dance Club

To encourage the habit of regular exercise among our staff, the O-Net Dance Club was founded in August 2019. We contracted a qualified dance teacher to lead the dance club, where employees establish their confidence and expand their social circles within the Group. The dance club will also perform in our annual dinner 2020 to showcase their efforts in the past months.

Sports Club

Regular exercise is imperative to physical health. Our basketball team, badminton team and football team continued to meet weekly and practise together to enhance their skills as well as their physical well-being. In 2019, the three sports teams had a total of 96 members.

Within Neighbourhood

Other than the O-Net community, we also strive to contribute in the construction of a more lively and more welcoming neighbourhood. We therefore actively participate in community events to build friendly relationships with other residents in the district.

Friendly Matches

Connecting with our neighbours through sports has been our long tradition. This year, our basketball team took part in a basketball competition organised by a local group in Pingshan. As always, we strongly support this kind of healthy and friendly engagement with the community.

Key Performance Table

KPI	Unit	2018	2019
Environmental			
GHG Emissions (Scope 1 & 2)	tCO_2e^-	43,801.09	44,610.88
GHG Emissions Intensity by FTE[1]	tCO_2e^-/Person	11.51	24.57
GHG Emissions Intensity by Revenue	tCO_2e^-/HKD'000	0.02	0.02
Electricity Usage[2]	MWh	45,877.41	46,730.85
Petroleum Usage	Tonnes	76.49	72.85
Diesel Oil Usage	Tonnes	10.90	14.38
Natural Gas Usage[3]	m^3	4,934.00	4,753.00
Total Energy Usage[4]	MJ	168,742,035.79	171,824,209.46
Energy Intensity by Revenue	MJ/HKD'000	67.07	66.57
Water Consumption	m^3	417,097.58	392,216.84
Water Consumption Intensity by FTE	m^3/Person	109.62	215.98
Total Non-Hazardous Waste Produced	Tonnes	–	1,244.00
• Domestic Non-Hazardous Waste	Tonnes	–	600.00
• Food Waste	Tonnes	–	250.00
• Production Non-Hazardous Waste	Tonnes	–	360.00
• Recyclables	Tonnes	–	34.00
Hazardous Waste Treated	Tonnes	104.97	129.43
Total Packaging Material	Tonnes	145.00	159.00
• Plastic	Tonnes	77.00	70.00
• Carton Boxes	Tonnes	60.00	65.00
• Sponge	Tonnes	8.00	24.00

1 FTE stands for full-time employee.

2 Usage of electricity by the outsourced electric buses is excluded in the calculation of the total electricity usage.

3 Usage of natural gas at the outsourced canteen is excluded in the calculation of the total natural gas usage.

4 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	2018	2019
Social			
Workforce Statistics			
Total Workforce	Person	3,805	1,816
Workforce by Gender			
Male	Person (%)	2,493 (65.52%)	1,234 (67.95%)
Female	Person (%)	1,312 (34.48%)	582 (32.05%)
Workforce by Employment Level			
Management	Person (%)	1,057 (27.78%)	1,156 (63.66%)
Worker	Person (%)	2,748 (72.22%)	660 (36.34%)
Workforce by Age Group			
18-20	Person (%)	83 (2.18%)	493 (27.15%)
21-30	Person (%)	2,192 (57.61%)	503 (27.70%)
31-40	Person (%)	1,323 (34.77%)	623 (34.31%)
41-50	Person (%)	165 (4.34%)	147 (8.09%)
>50	Person (%)	41 (1.08%)	50 (2.75%)
Turnover Statistics			
Staff Turnover	Person	3,954	2,558
Staff Turnover by Gender			
Male	Person	2,511	1,645
Female	Person	1,443	913
Average Training Hours			
By Management Staff	Hours	30	30
By Worker Staff	Hours	36	36
Work Injury Cases			
Work Injury	Case	2	3
Loss Days Due to Work Injury	No. of Days	90	53

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 (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("SEHK") as its own code of corporate governance.

During the year ended 31 December 2019, 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 code provisions set out in the CG Code during the year ended 31 December 2019.

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 2019.

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

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

Composition

The Board currently consists of seven Directors including 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 2019.

The individual training record of each Director received for the year ended 31 December 2019 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. Chen Zhujiang	√
Mr. Huang Bin	√
Mr. Mo Shangyun	√
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 association of the Company (the "Articles").

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 2019, the Board held 8 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	8/8
Mr. Chen Zhujiang	8/8
Mr. Huang Bin	8/8
Mr. Mo Shangyun	8/8
Mr. Ong Chor Wei	8/8
Mr. Deng Xinping	8/8
Mr. Zhao Wei	8/8

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 2019, one general meeting of the Company was held, being the 2019 annual general meeting of the Company held on 31 May 2019 (the "2019 AGM").

Name of Director	Number of attendance
Mr. Na Qinglin	1/1
Mr. Chen Zhujiang	1/1
Mr. Huang Bin	1/1
Mr. Mo Shangyun	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 Chairman of the Board and the chairman of the Nomination Committee, and chairman of each of the Audit Committee, the Remuneration Committee and the Corporate Governance Committee attended the 2019 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 possesses appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

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

The Audit Committee are also responsible for making recommendation to the Board on the appointment, 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 2019, 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 2019, 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. Huang Bin
Mr. Ong Chor Wei
Mr. Zhao Wei

During the year ended 31 December 2019, 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. Huang Bin	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 41 to the consolidated financial statements.

Senior Management's Remuneration

Senior Management's remuneration payment of the Group for the year ended 31 December 2019 falls within the following bands:

	Number of individuals
HKD1,000,001 to HKD1,500,000	2
HKD1,500,001 to HKD2,000,000	2
HKD2,000,001 to HKD2,500,000	3
HKD2,500,001 to HKD3,000,000	2
HKD3,500,001 to HKD4,000,000	2
HKD5,500,001 to HKD6,000,000	1

Nomination Committee

The Company established the Nomination Committee with written terms of reference which was approved on 9 April 2010 and revised on 30 March 2012 and further revised on 27 August 2013 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. Huang Bin
Mr. Deng Xinping
Mr. Ong Chor Wei
Mr. Zhao Wei

During the year ended 31 December 2019, 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. Huang Bin	1/1
Mr. Deng Xinping	1/1
Mr. Ong Chor Wei	1/1
Mr. Zhao Wei	1/1

Corporate Governance Committee

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

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

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

The CG Committee currently comprises two members as follows:

Mr. Na Qinglin *(Chairman)*
Mr. Zhou Yu

During the year ended 31 December 2019, 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. 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 HKD3,226,000 and HKD714,000 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 2019.

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 2020 annual general meeting of the Company will be voted by poll.

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

Constitutional Documents

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

Investor Relations

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

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

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

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

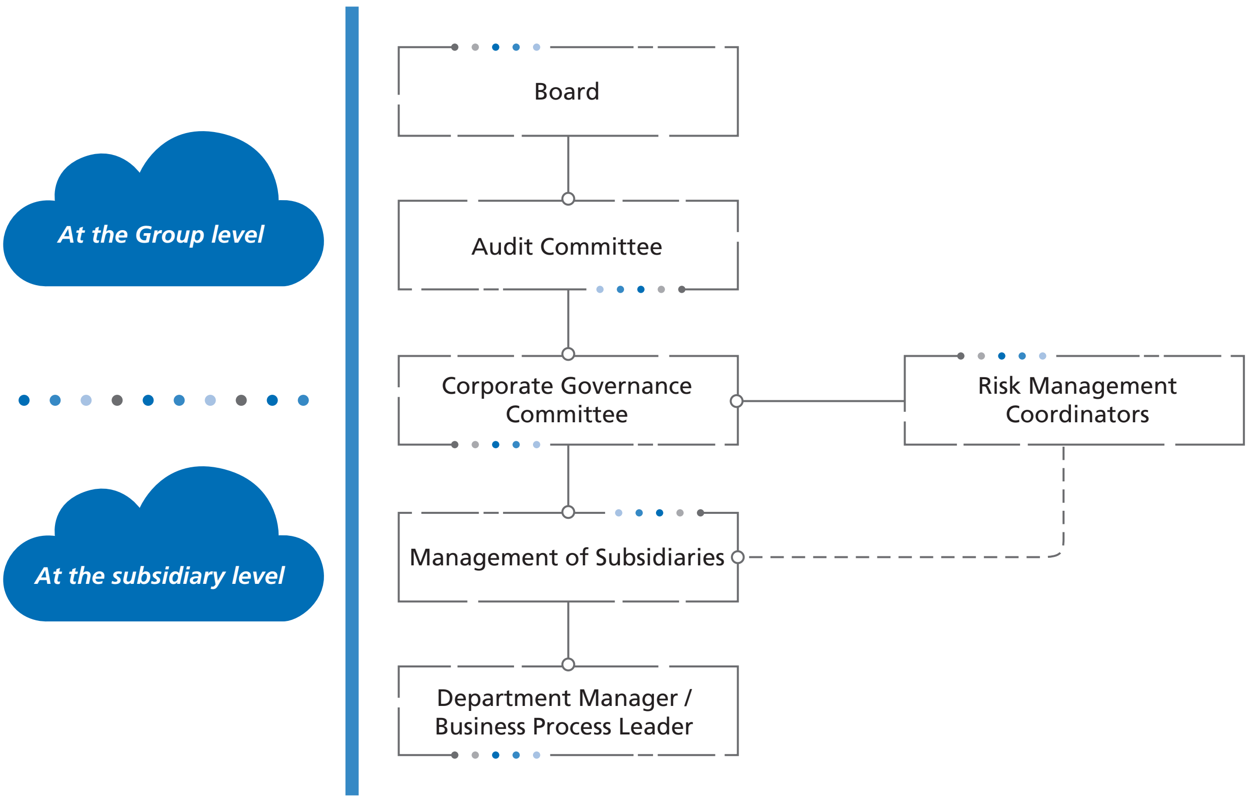
Risk Management and Internal Control

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 2019.

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 2019, 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 2019.

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.

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 Company 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 2019, 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 2019.

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 2019 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 101 to 185.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: HKD0.02 per share).

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, 29 May 2020 ("2020 AGM"), the register of members of the Company will be closed from Monday, 25 May 2020 to Friday, 29 May 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2020 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, 22 May 2020.

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 2019 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, on 1 August 2019, 18,881,000 Shares were issued and allotted to the trustee under the Share Award Scheme in order to grant awards to selected grantees.

Debentures Issued

No debenture has been issued by the Company during the year ended 31 December 2019.

Charitable Donations

During the year, the Group did not have charitable donation (2018: 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.

Directors' Report

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 2019, the Company repurchased 217,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD3.58 to HKD3.61 per share on the SEHK. Details of the repurchases are as follows:

Month/Year	Number of shares repurchased	Purchase price per share		Aggregate purchase consideration (excluding expenses)
		Highest	Lowest	
		HKD	HKD	HKD
January 2019	217,000	3.61	3.58	780,710.00
	217,000			780,710.00

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 2019, the Company's reserves available for distribution to the shareholders amounted to approximately HKD1,205 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. Chen Zhujiang
Mr. Huang Bin
Mr. Mo Shangyun

Independent Non-executive Directors

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

In accordance with Article 84(1) of the Articles, Mr. Chen Zhujiang, Mr. Huang Bin and Mr. Mo Shangyun shall retire from office as Directors by rotation at the 2020 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 2019	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31 December 2019
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	1,225,000	–	(506,000)	–	–	719,000
		2 June 2012 to 8 April 2020 (Note 3)		1,027,000	–	(479,000)	–	–	548,000
		2 June 2013 to 8 April 2020 (Note 4)		1,632,000	–	(581,000)	–	–	1,051,000
		2 June 2012 to 8 April 2020 (Note 5)		833,000	–	(324,000)	–	–	509,000
	22 April 2013	3 March 2014 to 8 April 2020 (Note 6)	1.680	800,000	–	(500,000)	–	–	300,000
	25 September 2013	13 August 2014 to 8 April 2020 (Note 7)	1.652	140,000	–	(70,000)	–	–	70,000
	16 October 2013	14 October 2014 to 8 April 2020 (Note 8)	1.628	2,600,000	–	(1,400,000)	–	–	1,200,000
	8 November 2013	8 November 2014 to 8 April 2020 (Note 9)	1.484	2,444,000	–	(1,332,000)	–	–	1,112,000
	9 April 2014	28 March 2015 to 8 April 2020 (Note 10)	2.40	344,000	–	(160,000)	–	(20,000)	164,000
Total				14,545,000	–	(7,352,000)	–	(20,000)	7,173,000

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 14,545,000 share options granted under the share option scheme were remained outstanding on 1 January 2019. During the year ended 31 December 2019, 7,352,000 share options were exercised into 7,352,000 Shares while 20,000 share options lapsed during the reporting period. Save as aforesaid, no further options were granted, cancelled and lapsed during the year ended 31 December 2019.

As at the date of this report, the total number of shares available for issue under the share option scheme is 7,173,000 shares, representing approximately 0.86% 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 section headed "Share Option Scheme" above and in note 22 to the consolidated financial statements, at no time during the year ended 31 December 2019 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 Shangyun, 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 10 August 2012 for a term of three years commencing from 10 August 2012 which is automatically renewable unless terminated by not less than three months' notice in writing served by either party on the other.

None of the Directors who are proposed for re-election at the 2020 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 2019.

Directors' Interests in Shares

As at 31 December 2019, 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	6,232,000 (Note 1)	0.75%
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. These include (i) 5,232,000 shares of the Company (the "Share(s)") held by Mandarin Assets Limited, a company wholly and beneficially owned by Mr. Na; and (ii) 1,000,000 awarded shares granted to Mr. Na according to the Share Award Scheme adopted by the Board on 9 May 2014.

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 Scheme".

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

As at 31 December 2019, 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	20.70%
Shenzhen Kaifa Technology Co., Ltd.	Interest of a controlled corporation	Long position	171,121,237 (Note 1)	20.70%
China Electronics Corporation	Interest of a controlled corporation	Long position	171,121,237 (Note 1)	20.70%
O-Net Holdings (BVI) Limited	Beneficial owner	Long position	228,373,383	27.61%

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 2019.

Major Customers and Suppliers

During the year, the Group's purchase from the five largest suppliers accounted for approximately 24% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 8% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 39% of the Group's total sales and sales to the largest customer included therein accounted for approximately 14% 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 38 to the consolidated financial statements.

Non-Exempt Continuing Connected Transactions

During the year ended 31 December 2019, 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, O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen") entered into a supply agreement with Butterfly Technology (Shenzhen) Ltd., Co. ("Butterfly Technology") for a term of three years commencing with retrospective effect from 1 January 2018 and expiring on 31 December 2020 regarding the supply of subcomponents, components, materials, article or goods, mainly for lens and surface mount technology ("relevant products") by O-Net Shenzhen to Butterfly Technology. The annual cap under the supply agreement for each of the three years ending 31 December 2020 shall be RMB10,000,000.

Butterfly Technology is a company owned as to 50% by Mr. Na Qinglin, the chairman, chief executive officer and executive Director of the Company and 50% by Mr. Huang Bin, the non-executive Director of the Company, and is therefore an associate of Mr. Na Qinglin and Mr. Huang Bin, and further a connected person of the Company under Chapter 14A of the Listing Rules.

For the year ended 31 December 2019, the aggregate amount of sales of the relevant products to Butterfly Technology received/receivable from Butterfly Technology amounted to RMB686,000 (approximately HKD780,000).

Exempt Continuing Connected Transactions

On 31 January 2019, O-Net Shenzhen has entered into a renewed tenancy agreement ("Renewed Tenancy Agreement") with Butterfly Technology in relation to the leasing of the East Portion, 6/F. O-Net Park Complex, No. 35 Cuijing Road, Pingshan New District, Shenzhen, the PRC and up to 20 units of the vacant staff quarters of the adjacent dormitory building at a monthly rental of RMB52,500 for a term 6 years commencing with retrospective effect from 1 January 2019 to 31 January 2025. The transactions contemplated under the Renewed Tenancy Agreement constituted exempted continuing connected transactions of the Company under the Listing Rules. During the year ended 31 December 2019, the aggregate amount of rentals and reimbursements received/receivable from Butterfly Technology under the Renewed Tenancy Agreement amounted to RMB 600,000 (approximately HKD682,000).

O-Net Shenzhen sells subcomponents, components, materials, article or goods, mainly for lens and surface mount technology to OB Technologies Limited, a joint venture of the Company registered in Cayman Islands. The transactions are exempted continuing connected transactions of the Company under the Listing Rules. For the year ended 31 December 2019, the aggregate amount of sales received/receivable from OB Technologies Limited amounted to RMB28,000 (approximately HKD32,000).

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

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

(ii) on normal commercial terms; and

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

The auditor of the Company has provided a letter to the Directors of the Company confirming the matters stated in Rule 14A.56 of the Listing Rules in respect of the continuing connected transaction as set out above which took place during the year.

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 66 to 82 of this annual report.

Auditors

A resolution will be submitted to the 2020 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, 17 March 2020

Independent Auditor's Report

pwc 羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of O-Net Technologies (Group) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 101 to 185, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019, 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 requirements 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:

- Assessment on the business combination of API Group
- Goodwill impairment assessment

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment on the business combination of API Group	
Refer to Notes 4.1(b) and 37 to the consolidated financial statements. On 19 March 2019, the Group completed the acquisition of Advance Photonics Investments Limited ("API") and its subsidiary 3SP Technologies ("3SP") (collectively "API Group") at a consideration of approximately HKD 155,095,000. Management assessed the facts and circumstances of the acquisition to determine the appropriate accounting in the Group's consolidated financial statements. For the purpose of purchase price allocation, management engaged an external valuer to value the assets and liabilities acquired in the acquisition, including the identification and valuation of intangible assets. We focused on this area because the accounting for the acquisition involves the use of significant management judgements and estimates in determining the acquisition date, identifying the intangible assets acquired and measuring the fair value of the acquired identifiable net assets using discounted cash flow valuation methodologies with key assumptions including the discount rate, revenue growth rate, technological obsolescence rate and useful lives of intangible assets.	Our procedures in relation to management's accounting for the acquisition included: – We discussed with the management to understand the Group's business rationale and basis of determining the consideration for the acquisition; – We reviewed the sale and purchase agreements and the relevant facts and circumstances, and assessed whether the Group's accounting policies and applicable accounting standards have been applied appropriately; – We assessed the competence, capabilities and objectivity of management's external valuer; – We involved our internal valuation experts to evaluate the methodologies used to determine the fair value of the identifiable assets and liabilities (including the intangible assets acquired), benchmarked the discount rate of the acquired intangible assets against other comparable companies in the industry, and assessed the useful lives of the intangible assets taking into account economic and industry forecasts; – We assessed, the reasonableness of key assumptions including revenue growth rate, gross margin and technological obsolescence rate applied by management taking into account market developments and historical data; – We tested the mathematical accuracy of the underlying calculation; and – We evaluated the sensitivity analysis of the key assumptions adopted by management, including the discount rate, revenue growth rate, technological obsolescence rate and useful lives of intangible assets. Based on available evidence and our work performed, we found the basis of acquisition date, key assumptions used in identifying the intangible assets acquired and measuring the fair value of the acquired identifiable net assets to be supportable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment	
Refer to Note 4.1(a) and Note 9(a) to the consolidated financial statements. As at 31 December 2019, there was goodwill with carrying amount of HKD124,693,000 arising from acquisitions both in previous years and current year's acquisition of the API Group. The Group performs goodwill impairment assessment in accordance with the accounting policy stated in Note 2.9, including the identification of cash generating units and the allocation of goodwill. 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 assessed whether the identification of cash generating units and allocation of goodwill to a group of cash generating units for impairment assessment aligned with our understanding of the Group's business activities; – 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; and – 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 requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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, 17 March 2020

Consolidated Balance Sheet

	Note	As at 31 December 2019 HKD'000	2018 HKD'000
ASSETS			
Non-current assets			
Land use right	*6*	**–**	23,120
Right-of-use assets	*6*	**67,924**	–
Property, plant and equipment	*7*	**1,073,359**	957,831
Intangible assets	*9*	**247,147**	90,423
Investments accounted for using equity method	*13*	**47,501**	31,119
Deferred income tax assets	*27*	**1,296**	698
Financial assets at fair value through other comprehensive income	*11*	**15,185**	1,656
Derivative financial instruments		**–**	97
Other non-current receivables	*16*	**6,295**	126,832
Other non-current prepayments	*8*	**45,010**	157,154
		1,503,717	1,388,930
Current assets			
Inventories	*14*	**596,441**	501,025
Contract assets	*15*	**21,472**	27,180
Trade and other receivables	*16*	**876,588**	865,885
Other current assets	*17*	**3,498**	4,186
Financial assets at fair value through profit or loss	*18*	**–**	24,891
Pledged bank deposits	*19*	**10,718**	65,672
Cash and cash equivalents	*19*	**481,100**	341,591
		1,989,817	1,830,430
Total assets		**3,493,534**	3,219,360
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*20*	**8,269**	8,020
Share premium	*20*	**1,113,552**	1,105,589
Treasury shares	*20*	**(29,753)**	(60,847)
Other reserves	*21*	**14,467**	56,918
Retained earnings	*23*	**1,242,006**	1,139,778
		2,348,541	2,249,458
Non-controlling interests		**(10,564)**	(1,994)
Total equity		**2,337,977**	2,247,464

Consolidated Balance Sheet

	Note	As at 31 December 2019 HKD'000	2018 HKD'000
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	*27*	**17,917**	11,953
Lease liabilities	*6*	**37,511**	–
Post-employment benefit obligations	*25*	**10,267**	–
Deferred government grants	*24*	**13,083**	11,676
		78,778	23,629
Current liabilities			
Trade and other payables	*25*	**433,022**	428,750
Contract liabilities	*15*	**9,047**	9,997
Current income tax liabilities		**31,082**	21,750
Lease liabilities	*6*	**12,598**	–
Borrowings	*26*	**591,030**	487,770
		1,076,779	948,267
Total liabilities		**1,155,557**	971,896
Total equity and liabilities		**3,493,534**	3,219,360

The notes on pages 108 to 185 are an integral part of these consolidated financial statements.

The financial statements on pages 101 to 185 were approved by the Board of Directors on 17 March 2020 and were signed on its behalf.

Na Qinglin
Director

Deng Xinping
Director

Consolidated Statement of Profit or Loss – by Function of Expense

	Note	Year ended 31 December 2019 HKD'000	2018 HKD'000
Revenue	5	**2,580,961**	2,516,422
Cost of sales	29	**(1,830,704)**	(1,728,430)
Gross profit		**750,257**	787,992
Other gains - net	28	**12,689**	64,213
Selling and marketing costs	29	**(81,490)**	(78,975)
Research and development expenses	29	**(270,818)**	(247,552)
Administrative expenses	29	**(262,527)**	(215,634)
Net impairment losses on financial and contract assets	29	**(7,619)**	(676)
Operating profit		**140,492**	309,368
Finance income	31	**15,411**	6,194
Finance expenses	31	**(33,059)**	(32,399)
Finance expenses – net	31	**(17,648)**	(26,205)
Share of losses of investments accounted for using equity method	13	**(9,544)**	(1,054)
Profit before income tax		**113,300**	282,109
Income tax expenses	32	**(4,520)**	(23,895)
Profit for the year		**108,780**	258,214
Profit attributable to:			
Owners of the Company		**117,388**	261,792
Non-controlling interests		**(8,608)**	(3,578)
		108,780	258,214
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
Basic	34	**0.15**	0.35
Diluted	34	**0.15**	0.34

The notes on pages 108 to 185 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2019	2018
	HKD'000	HKD'000
Profit for the year	**108,780**	258,214
Other comprehensive loss		
Item that may be reclassified to profit or loss		
Currency translation differences	**(45,854)**	(84,839)
Items that will not be reclassified to profit or loss		
Remeasurements of post-employment benefit obligations	**(1,015)**	–
Changes in the fair value of equity investments at fair value through other comprehensive income (Note 11)	**(4,176)**	(3,024)
Other comprehensive loss for the year	**(51,045)**	(87,863)
Total comprehensive income for the year	**57,735**	170,351
Attributable to:		
– Owners of the Company	**66,305**	173,929
– Non-controlling interests	**(8,570)**	(3,578)
Total comprehensive income for the year	**57,735**	170,351

The notes on pages 108 to 185 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 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

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 2019	8,020	1,105,589	(60,847)	56,918	1,139,778	2,249,458	(1,994)	2,247,464
Comprehensive income								
Profit for the year	–	–	–	–	117,388	117,388	(8,608)	108,780
Other comprehensive loss								
Currency translation differences	–	–	–	(45,892)	–	(45,892)	38	(45,854)
Changes in the fair value of equity investments at fair value through other comprehensive income	–	–	–	(4,176)	–	(4,176)	–	(4,176)
Remeasurements of post-employment benefit obligations	–	–	–	(1,015)	–	(1,015)	–	(1,015)
Total comprehensive loss	–	–	–	(51,083)	117,388	66,305	(8,570)	57,735
Transactions with owners in their capacity as owners								
Share award schemes – value of services (Note 29)	–	–	–	35,780	–	35,780	–	35,780
Share award schemes – vesting of awarded shares	–	–	27,148	(27,148)	–	–	–	–
Allotment of shares	189	–	(189)	–	–	–	–	–
Cancellation of treasury shares	(12)	(4,123)	4,135	–	–	–	–	–
Repurchase of shares	(2)	(787)	–	–	–	(789)	–	(789)
Exercise of share options	74	12,873	–	–	–	12,947	–	12,947
Dividends declared and paid in respect of the current year	–	–	–	–	(15,160)	(15,160)	–	(15,160)
Balance at 31 December 2019	8,269	1,113,552	(29,753)	14,467	1,242,006	2,348,541	(10,564)	2,337,977

The notes on pages 108 to 185 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2019 HKD'000	2018 HKD'000
Cash flows generated from operating activities			
Cash generated from operating activities	*35*	**314,830**	365,144
Interest paid		**(31,809)**	(29,741)
Tax refund		**–**	3,181
Income tax paid		**(1,306)**	(28,835)
Net cash generated from operating activities		**281,715**	309,749
Cash flows used in investing activities			
Proceeds from disposal of highly liquid investment		**7,725**	–
Proceeds from disposal of a subsidiary	*28*	**301**	–
Acquisition of subsidiaries, net of cash acquired	*37*	**12,561**	–
Payment for investment in an associate	*13(a)*	**(23,226)**	(23,400)
Payment for setting up a joint venture	*13(b)*	**(2,700)**	–
Purchases of property, plant and equipment and payments for construction-in-progress		**(227,210)**	(160,576)
Purchase of intangible assets		**–**	(700)
Proceeds from government grant related to property, plant and equipment	*24*	**–**	2,365
Capital expenditure for capitalised development costs	*9*	**(17,183)**	(20,858)
Interest received		**4,910**	4,213
Proceeds from disposal of fixed assets and intangible assets		**770**	1,394
Decrease of term deposits with initial term of over three months	*19*	**–**	2,492
Payments for financial assets at fair value through profit or loss	*18*	**–**	(7,483)
Net cash used in investing activities		**(244,052)**	(202,553)
Cash flows generated from/(used in) financing activities			
Proceed from borrowings		**816,085**	1,050,086
Repayments of borrowings		**(694,276)**	(1,196,525)
Pledged bank deposits		**–**	70,352
Proceeds from exercise of share options	*20*	**12,947**	6,997
Principal elements of lease payments	*6*	**(11,430)**	–
Dividends paid to shareholders of the Company	*23*	**(15,160)**	–
Payments for repurchase of shares		**(789)**	(5,533)
Net cash generated from/(used in) financing activities		**107,377**	(74,623)
Net increase in cash and cash equivalents		**145,040**	32,573
Cash and cash equivalents at the beginning of the year		**341,591**	320,749
Exchange difference		**(5,531)**	(11,731)
Cash and cash equivalents at the end of the year		**481,100**	341,591

The notes on pages 108 to 185 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General Information

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

The Company and its subsidiaries (the "Group") are principally engaged in the design, manufacturing and sale of optical networking subcomponents, components, modules, and subsystem used in high-speed telecommunications and data communications. In 2019, the Group acquired API Group (Note 37) which is principally engaged in the research, development, manufacturing and sale of innovative chips and laser products for 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 17 March 2020.

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 Summary of Significant Accounting Policies (Continued)

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 2019:

- HKFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to HKFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to HKAS 28
- Annual Improvements to HKFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to HKAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2(c). Other amendments listed above did not have any impact on the amounts recognised in prior periods and would not significantly affect the current or future periods.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not 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

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.2(a) above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.27.

2 Summary of Significant Accounting Policies (Continued)

2.2 Changes in accounting policy and disclosures (Continued)

(c) Changes in accounting policies (Continued)

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 ranged between 4.2% to 5%.

The Group did not have leases previously classified as finance leases.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases

- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

2 Summary of Significant Accounting Policies (Continued)

2.2 Changes in accounting policy and disclosures (Continued)

(c) Changes in accounting policies (Continued)

(ii) Measurement of lease liabilities

	2019 HKD'000
Operating lease commitments disclosed as at 31 December 2018	79,427
(Less): lease contracts signed but have not yet commenced as at 31 December 2018	(21,734)
	57,693
Discounted using the lessee's incremental borrowing rate of at the date of initial application	45,858
(Less): short-term leases not recognised as liabilities	(320)
Lease liabilities recognised as at 1 January 2019	45,538
Of which are:	
Current lease liabilities	8,865
Non-current lease liabilities	36,673
	45,538

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Group's consolidated balance sheet as at 31 December 2018.

(iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the Group's consolidated balance sheet on 1 January 2019:

- Land use right – decrease by approximately HKD23,120,000
- right-of-use assets – increase by approximately HKD68,658,000
- lease liabilities – increase by approximately HKD45,538,000.

There was no impact on retained earnings on 1 January 2019.

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

2 Summary of Significant Accounting Policies (Continued)

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.

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.

2 Summary of Significant Accounting Policies (Continued)

2.3 Subsidiaries (Continued)

2.3.1 Consolidation (Continued)

Business combination (Continued)

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.

2.4 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.

2 Summary of Significant Accounting Policies (Continued)

2.4 Associates (Continued)

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.

2.5 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 Summary of Significant Accounting Policies (Continued)

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 mainly 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.

(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.

2 Summary of Significant Accounting Policies (Continued)

2.7 Foreign Currency Translation (Continued)

(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.

2.8 Property, Plant and Equipment

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

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

Depreciation of property, plant and equipment of all the other entities in the Group is calculated using the straight-line method, while most assets of ITF Technologies Inc., comprising 6% 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

2 Summary of Significant Accounting Policies (Continued)

2.8 Property, Plant and Equipment (Continued)

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.

2.9 Intangible Assets

(a) Goodwill

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

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

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

(b) Patent

Patent represents purchased technology from third parties and developed independently. It has a finite life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives from 7 to 9 years.

2 Summary of Significant Accounting Policies (Continued)

2.9 Intangible Assets (Continued)

(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.

(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)

2.10 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.

2.11 Financial Assets

2.11.1 Classification

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. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.11.2 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)

2.11 Financial Assets(Continued)

2.11.3 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.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments at amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

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.

2.11.4 Impairment

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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 measuring ECL, see Note 3.1 for further details.

2 Summary of Significant Accounting Policies (Continued)

2.12 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.

2.13 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.

2.14 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 365 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.

2.15 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.

2.16 Share Capital

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

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

2 Summary of Significant Accounting Policies (Continued)

2.17 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".

2.18 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.

2.19 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.

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.20 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.

2.21 Current and Deferred Income Tax

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

(a) Current income tax

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

(b) Deferred income tax

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.21 Current and Deferred Income Tax (Continued)

(c) Offsetting

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

2.22 Employee Benefits

(a) Pension Obligations

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

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

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

(b) Share-based compensation benefits

The Group operates a number of share-based compensation plans (including share option schemes and share award schemes), more details of the plans are described in Note 2.23.

(c) Employee Leave Entitlements

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

2 Summary of Significant Accounting Policies (Continued)

2.22 Employee Benefits (Continued)

(d) Post-employment benefit obligations

The Group operates post-employment schemes for certain subsidiaries in France.

The liabilities recognised in the balance sheet in respect of the post-employment benefit obligations is the present value of the post-employment benefit obligations at the end of the reporting period. The post-employment benefit obligations is calculated annually by independent actuaries using the projected unit credit method. The Group does not set aside any assets to fund any remaining obligations.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The net interest cost is calculated by applying the discount rate to the balance of the post-employment benefit obligation. This cost is included in employee benefit expense in the consolidated statement of profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the consolidated statement of changes in equity and in the consolidated balance sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

2 Summary of Significant Accounting Policies (Continued)

2.23 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 22). 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.

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.23 Share-based Payments (Continued)

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

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

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

(b) Share-based payment transactions among group entities

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

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

2.24 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.

2 Summary of Significant Accounting Policies (Continued)

2.24 Revenue recognition (Continued)

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

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. Performance of coating business enhances assets that customers control as the assets are enhanced, and revenue generated from coating business is recognised over time.

2.25 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 Summary of Significant Accounting Policies (Continued)

2.26 Dividend income

Dividends are received from financial assets measured at FVPL and at FVOCI.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.

2.27 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until the 2018 financial year, leases of property, plant and equipment in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 36). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. Up-front payments to acquire long-term interests in the usage of land were classified as land use rights, which were 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.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

- amounts expected to be payable by the Group under residual value guarantees

- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and

- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

2 Summary of Significant Accounting Policies (Continued)

2.27 Leases (Continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by subsidiaries, which does not have recent third party financing, and

- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability

- any lease payments made at or before the commencement date less any lease incentives received

- any initial direct costs, and

- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The useful lives used for the assets' depreciation purpose are:

Buildings	43 years
Land	Over the lease term
Machinery	5-10 years

2 Summary of Significant Accounting Policies (Continued)

2.27 Leases (Continued)

Payments associated with short-term leases of building and machinery and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 6). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.28 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.

2.29 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.

2.30 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 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, EUR, 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, CAD against RMB and USD against EUR. 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 2019, if USD had weakened/strengthened by 5% against RMB with all other variables held constant, profit before tax for the year would have been approximately HKD26,913,000 (2018: approximately HKD30,084,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated cash in banks, trade and other receivables and trade and other payables. 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 2019, if CAD had weakened/strengthened by 5% against RMB with all other variables held constant, profit before tax for the year would have been approximately HKD1,184,000 (2018: approximately HKD170,000)lower/higher, mainly as a result of foreign exchange losses/gains on translation of CAD-denominated cash in banks, trade and other receivables and trade and other payables. 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)

(i) Foreign exchange risk (Continued)

At 31 December 2019, if USD had weakened/strengthened by 5% against EUR with all other variables held constant, profit before tax for the year would have been HKD5,819,000 (2018: HKD4,036,000)lower/higher, mainly as a result of foreign exchange losses/gains on translation of EUR-denominated cash in banks and trade and other receivables. This sensitivity analysis ignores any offsetting foreign exchange factors and has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date.

(ii) Cash flow and fair value interest rate risk

As at 31 December 2019, except for the term deposits and pledged bank deposits of approximately HKD10,718,000 (2018: approximately HKD65,672,000),which were held at fixed interest rate of 0.30% per annum (2018: 0.81% 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 0.05% to 0.30% per annum (2018: 0.06% to 0.30%). Borrowings with variable rates from 3.31% to 5.22% (2018: 2.49% to 6.13%), expose the Group to cash flow interest rate risk that are all short-term loans within one year in 2019, with a relatively small interest rate fluctuation. 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.

(iii) Price risk

Exposure

The group's exposure to equity securities price risk arises from investments held by the group and classified in the balance sheet either as at FVOCI (Note 11) or at FVPL (Note 18).

To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

The majority of the group's equity investments are publicly traded in the London Stock Exchange or the Korea Stock Exchange.

3 Financial Risk Management (Continued)

3.1 Financial Risk Factor (Continued)

(a) Market risk (Continued)

(iii) Price risk (Continued)

Sensitivity

The table below summarises the impact of increases/decreases of these two indexes on the Group's listed equity investments classified as FVOCI and FVOCI reserve for the period. The analysis is based on the assumption that the equity indexes had increased and decreased by 5%, respectively, with all other variables held constant, and that all of the Group's equity instruments moved in line with the indexes.

	Increase/(decrease) on FVOCI reserve	
	2019	2018
	HKD'000	HKD'000
London and Korean Stock Exchange indexes – increase 5%	**708**	N/A
London and Korean Stock Exchange indexes – decrease 5%	**562**	N/A

(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 mainly in 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 ECL 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.

To measure the ECL, 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 2019 and 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.

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)

	2019 HKD'000	2018 HKD'000
At 1 January	**1,046**	752
Increase in loss allowance recognised in profit or loss during the year	**7,619**	676
Receivables written off during the year as uncollectible	**(132)**	(374)
Translation difference	**(92)**	(8)
At 31 December	**8,441**	1,046

(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	Between 1 and 2 years HKD'000	Between 2 and 5 years HKD'000	Between 5 and 10 years HKD'000	Total HKD'000
At 31 December 2019					
Borrowings (including interests)	605,720	–	–	–	605,720
Trade and other payables	341,939	–	–	–	341,939
Lease liabilities	16,147	11,556	17,351	27,129	72,183
	963,806	11,556	17,351	27,129	1,019,842
At 31 December 2018					
Borrowings (including interests)	499,883	–	–	–	499,883
Trade and other payables	348,368	–	–	–	348,368
	848,251	–	–	–	848,251

3 Financial Risk Management (Continued)

3.2 Capital Management

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

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

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

The Group has net debt of HKD160,039,000 as at 31 December 2019 (2018: HKD146,203,000).

The Group's debt-to-equity ratio is 6.8% at 31 December 2019 (2018: 6.5%).

3.3 Fair Value Estimation

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

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

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2019.

	Level 1 HKD'000	Level 2 HKD'000	Level 3 HKD'000	Total HKD'000
Assets				
Financial assets at FVOCI – listed and unlisted (Note 11)	**14,168**	**–**	**1,017**	**15,185**

3 Financial Risk Management (Continued)

3.3 Fair Value Estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 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 changes in level 3 instruments for the years ended 31 December 2019 and 2018.

	Financial assets at fair value	
	2019 HKD'000	2018 HKD'000
At 1 January	**26,644**	18,913
Reclassify unlisted equity securities from AFS to financial assets at FVOCI under HKFRS 9	**–**	4,680
Additions		
– Financial assets at FVPL	**–**	7,483
– Financial assets at FVOCI	**17,705**	–
Fair value change recognised in profit or loss or OCI		
– Financial assets at FVPL	**–**	(1,408)
– Financial assets at FVOCI	**(4,176)**	(3,024)
Disposals	**(24,988)**	–
At 31 December	**15,185**	26,644
Changes in unrealized losses for the year included in profit or loss at the end of the year	**–**	(1,408)

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 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions.

According to the valuations results produced by the management of the Company based on the estimates and assumptions as disclosed in Note 9, management considered that no impairment charge was required.

(b) Business Combination

Accounting for business combinations requires the Group to allocate the cost of acquisition to specific assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. In connection with the business combination (Note 37), the Group has undertaken a process to identify all assets and liabilities acquired. Judgements made in identifying all acquired assets and liabilities (including the intangible assets) and determining the estimated fair value assigned to each class of assets acquired and liabilities assumed (including the valuation of the acquired intangible assets which was determined using the discounted cash flow valuation techniques involving key assumptions including the discount rate, revenue growth rate, technological obsolescence rate and remaining useful lives of the intangible assets) could materially impact the calculation of goodwill and amortisation charges of intangible assets in subsequent periods. Estimated fair values are based on information available at the acquisition date and on expectations and assumptions that have been deemed reasonable by management. Determining the estimated useful lives of intangible assets acquired also requires judgement.

(c) Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation at the end of each reporting period.

4 Critical Accounting Estimates and Assumptions (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(d) Income taxes

The Group is subject to income taxes mainly in Hong Kong and the PRC. Significant judgement is required in determining provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where the expectation is different from the original estimate,such differences will impact the recognition of deferred income tax assets and tax expense in the periods in which such estimate is changed.

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 2019 and 2018.

(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:

	2019 HKD'000	2018 HKD'000
The PRC	**992,540**	953,257
Europe	**721,720**	664,662
North America	**424,630**	447,614
Other Asian countries excluding the PRC	**442,071**	450,889
	2,580,961	2,516,422

5 Segment Information (Continued)

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 31 December 2019 and 2018 are as follows:

	2019 HKD'000	2018 HKD'000
The PRC	964,699	971,375
Europe	305,151	–
North America	153,644	101,775
Hong Kong	54,402	225,986
Others	3,045	–
	1,480,941	1,299,136

(c) Revenue of approximately HKD370,710,000 (2018: HKD488,083,000)and trade receivables of approximately HKD176,370,000 (2018: HKD90,673,000)are derived from one (2018: one) external customer, which are more than 10% of the Group's total revenue and total trade receivables.

During the year ended 31 December 2019, revenue of approximately HKD715,969,000 (2018: HKD851,310,000)was derived from three customers, which comprised 28% (2018: 34%) 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 2019, revenue recognised at a point in time for sale of products amounted to approximately HKD2,518,950,000 (2018: HKD2,421,584,000) and revenue recognised over time for coating business amounted to approximately HKD 62,011,000 (2018: HKD94,838,000).

6 LEASES

(a) Balance recognised in the consolidated balance sheet relating to leases:

Right-of-use assets

	Machinery HKD'000	Properties HKD'000	Land use rights HKD'000	Total HKD'000
Balance as at 1 January 2019	–	–	–	–
Change in accounting policy (Note 2.2)	189	45,349	23,120	68,658
Restated balance at 1 January 2019	189	45,349	23,120	68,658
Additions	375	13,113	–	13,488
Depreciation (Note 29)	(97)	(12,836)	(599)	(13,532)
Currency translation differences	(1)	(193)	(496)	(690)
Balance as at 31 December 2019	466	45,433	22,025	67,924

6 LEASES (Continued)

(a) (Continued)

Lease Liabilities

	31 December 2019 HKD'000	1 January 2019 HKD'000
Current portion	**(12,598)**	(8,865)
Non-current portion	**(37,511)**	(36,673)
Total lease liabilities	**(50,109)**	(45,538)

As at December 31, 2019, the carrying value of the Group's lease liabilities were denominated in USD, HKD and RMB.

Until the 2018 financial year, leases of land were classified as land use rights.

(b) Amounts recognised in the consolidated statement of comprehensive income relating to leases:

	Note	2019 HKD'000	2018 HKD'000
Depreciation of right-of-use assets	*29*	**13,532**	N/A
Finance costs on lease liabilities	*31*	**2,853**	N/A
Rental expenses of short-term leases	*29*	**9,114**	N/A
Operating lease rental	*29*	**N/A**	9,631
Amortisation of land use rights	*29*	**N/A**	623

(c) Amounts recognised in the consolidated statement of cash flows relating to leases:

	Note	2019 HKD'000	2018 HKD'000
Cash flows from operating activities			
Payments for short-term leases	*29*	**9,114**	N/A
Payments for operating leases rental	*29*	**N/A**	9,631
Payments for interest elements of lease liabilities	*31*	**2,853**	N/A
Cash flow used in financing activities			
Payments for principal elements of lease liabilities		**11,430**	N/A

(d) The Group's leasing activities and how these are accounted for:

The Group leases various offices, warehouses and equipment. Rental contracts are typically made for fixed periods of 6 months to 10 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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 2018						
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
Year ended 31 December 2019						
Opening net book amount	518,756	203,149	231	182,416	53,279	957,831
Transfers	33,877	3,890	–	–	(37,767)	–
Acquisition of subsidiaries (Note 37)	–	39,265	–	52	19,988	59,305
Additions	–	58,901	–	96,422	60,502	215,825
Disposals	–	(230)	–	(1,541)	–	(1,771)
Depreciation charge	(13,270)	(52,119)	(26)	(53,028)	–	(118,443)
Impairment (Note 29)	–	(21,144)	–	–	–	(21,144)
Currency translation differences	(11,109)	(2,998)	(5)	(2,795)	(1,337)	(18,244)
Closing net book amount	528,254	228,714	200	221,526	94,665	1,073,359
At 31 December 2019						
Cost	595,588	449,198	1,608	540,636	94,665	1,681,695
Accumulated depreciation	(67,334)	(220,484)	(1,408)	(319,110)	–	(608,336)
Net book amount	528,254	228,714	200	221,526	94,665	1,073,359

7 Property, Plant and Equipment (Continued)

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

	2019 HKD'000	2018 HKD'000
Cost of sales	**88,183**	74,495
Selling and marketing costs	**256**	234
Research and development expenses	**21,599**	19,768
Administrative expenses	**8,405**	5,959
	118,443	100,456

(b) As at 31 December 2019, 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 2019, the Group was in the process of applying the building ownership certificate of certain buildings with the aggregated carrying amounts amounted to HKD528,254,000 (31 December 2018: HKD518,756,000).

8 Other Non-Current Prepayments

	2019 HKD'000	2018 HKD'000
Prepayment for purchase of property, plant and equipment	**43,965**	1,008
Prepayment for equity investment (a)	**–**	155,095
Others	**1,045**	1,051
	45,010	157,154

(a) The Group entered into the Sale and Purchase Agreement with 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, 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. On 19 March 2019, the Group has entered into a supplementary agreement (the "Supplemental 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 API and 3SP was completed on the same day while the prepayment for equity investment amounting to HKD155,095,000(Note 37) was accounted for as the settlement of the consideration.

9 Intangible Assets

	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

	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 2019						
Opening net book amount	**29,924**	**46,042**	**1,332**	**6,512**	**6,613**	**90,423**
Acquisition of subsidiaries (Note 37)	**94,769**	**7,878**	**62,277**	**975**	**–**	**165,899**
Addition	**–**	**17,183**	**–**	**1,292**	**–**	**18,475**
Amortisation charge	**–**	**(13,555)**	**(5,020)**	**(2,481)**	**(1,202)**	**(22,258)**
Translation difference	**–**	**(635)**	**(6)**	**(81)**	**–**	**(722)**
Impairment (Note 29)	**–**	**(4,670)**	**–**	**–**	**–**	**(4,670)**
Closing net book amount	**124,693**	**52,243**	**58,583**	**6,217**	**5,411**	**247,147**
At 31 December 2019						
Cost	**124,693**	**101,590**	**66,271**	**17,141**	**9,019**	**318,714**
Accumulated amortisation and impairment	**–**	**(49,347)**	**(7,688)**	**(10,924)**	**(3,608)**	**(71,567)**
Net book amount	**124,693**	**52,243**	**58,583**	**6,217**	**5,411**	**247,147**

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 in 2019 and 2018.

9 Intangible Assets (Continued)

(a) Impairment tests for goodwill

Goodwill was acquired through business combinations of Passive Optics Business Unit of Titan Photonics, Inc. ("Titan"), the acquisition of ArtIC and the acquisition of API Group (Note 37), details of which were as below:

	2019 HKD'000	2018 HKD'000
At 1 January	29,924	29,924
Acquisition of subsidiaries (Note 37)	94,769	–
At 31 December	124,693	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.

For the purpose of impairment testing, Goodwill arisen from current year's acquisition of API Group is allocated to the group of CGUs which comprise the Group's optical networking business since management expects to realise the future economic benefits from the synergies of the business combination by operating API Group as an integrated part of the Group's optical networking business.

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

The key assumptions used for value-in-use calculations are as follows:

	2019	2018
Optical networking business		
Terminal growth rate	3%	3%
Pre-tax discount rate	15%	15%
Five year revenue growth rate	12%-27%	5%-13%

These assumptions have been used for the analysis of the optical networking business within the operating segment. Management estimated the terminal 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. Revenue growth rate is determined by management of based on past performance and the future business plan and synergy expected to be achieved from the business combination.

Based on the assessment of the cash flow projection, the Directors considered that there is no impairment of goodwill as at 31 December 2019.

(b) Research and development costs amounting to HKD297,705,000 were incurred for the year ended 31 December 2019 (2018: HKD268,410,000),of which HKD25,700,000 (2018: HKD20,858,000) 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	2019 HKD'000	2018 HKD'000
Financial assets at amortised cost			
– Trade and other receivables	*16*	**876,588**	865,885
– Cash and cash equivalents, term deposits with initial term of over three months and pledged bank deposits	*19*	**491,818**	407,263
Financial assets at FVPL			
– Financial assets at FVPL	*18*	**–**	24,891
– Derivative financial instruments		**–**	97
Financial assets at FVOCI	*11*	**15,185**	1,656
		1,383,591	1,299,792

	2019 HKD'000	2018 HKD'000
Financial liabilities at amortised cost		
Borrowings (Note 26)	**591,030**	487,770
Trade and other payables excluding non-financial liabilities (Note 25)	**341,939**	348,368
Lease liabilities (Note 6)	**50,109**	–
	983,078	836,138

11 Financial Assets at Fair Value Through Other Comprehensive Income

(i) Classification of FVOCI

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 FVOCI

	2019 HKD'000	2018 HKD'000
At 1 January	**1,656**	4,680
Acquisition of subsidiaries (Note 37)	**11,127**	–
Additions	**6,578**	–
Fair value change	**(4,176)**	(3,024)
At 31 December	**15,185**	1,656

Notes to the Consolidated Financial Statements

11 Financial Assets at Fair Value Through Other Comprehensive Income (Continued)

(ii) Equity investments at FVOCI (Continued)

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

	As at 31 December 2019	As at 31 December 2018
Non-current assets:		
Unlisted equity securities	**1,017**	1,656
Listed equity securities	**14,168**	–
	15,185	1,656

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

(iii) Amounts recognised in other comprehensive income

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

	2019 HKD'000	2018 HKD'000
Losses recognised in other comprehensive income		
Related to equity investments	**(4,176)**	(3,024)

(iv) Fair value, impairment and risk exposure

Information about the methods and assumptions used in determining the fair value is provided in Note 3.3. The financial assets at FVOCI are denominated in USD, GBP and KRW. For an analysis of the sensitivity of the assets to price and interest rate risk refer to Note 3.1.

12 Subsidiaries

The following is a list of the principal subsidiaries at 31 December 2019

Name	Date of incorporation	Place of incorporation and kind of legal entity	Share capital or paid-in capital	Interest held directly	Interest held indirectly	Principal activities and place of operation
O-Net Automation Technology (Shenzhen) Limited ("O-Net Auto SZ")	10 May 2013	Shenzhen, the PRC, Limited liability company	RMB50,000,000	–	100%	Design, manufacturing and sales of automation products, Shenzhen, the PRC
O-Net Communications (USA), Inc. ("O-Net USA")	20 August 2012	USA, Limited liability company	USD100	–	100%	Research and development centre with major operation in USA
O-Net Automation Technology (HK) Limited ("O-Net Auto")	27 June 2012	Hong Kong, Limited liability company	HKD10,000	–	100%	Investment holding
O-Net Communications Holdings Limited ("O-Net BVI")	06 November 2006	BVI, Limited liability company	USD28,991	100%	–	Investment holding
O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen")	23 October 2000	Shenzhen, the PRC, Limited liability company	HKD300,000,000	–	100%	Design, manufacturing and sales of optical networking products, Shenzhen, the PRC
O-Net Communications (HK) Limited ("O-Net Hong Kong")	25 September 2000	Hong Kong, Limited liability company	HKD1,000,000	–	100%	Sales of optical networking products, Hong Kong
ArtIC Photonics Inc. ("ArtIC") (b)	23 September 2013	Canada, Limited liability company	HKD24,180,000	–	47.86%	Design, and development of optical component products, Canada
ITF Technologies Inc. ("ITF")	25 May 1995	Canada, Limited liability company	USD5,000,000	–	100%	Manufacturing and distributing fiber optics components and fiber sensors
O-Net Automation Technologies Holdings Limited	04 August 2016	BVI, Limited liability company	USD1	–	100%	Investment holding
O-Net Industrial Technologies Holdings Limited (O-Net Coating and Materials Technologies Holdings Limited)	04 August 2016	BVI, Limited liability company	USD1	–	100%	Investment holding
O-Net Industrial Technologies (HK) Limited (formerly known as O-Net Coating and Materials Technologies (HK) Limited) ("O-Net Industrial")	22 August 2016	Hong Kong, Limited liability company	HKD1	–	100%	Investment holding
O-Net Industrial Technologies (Shenzhen) Limited	01 July 2019	Shenzhen, the PRC, Limited liability company	HKD1,500,000	–	100%	Design, manufacturing and sales of industrial products, Shenzhen, the PRC
API	16 September 2014	Hong Kong, Limited liability company	HKD10,000	–	100%	Investment holding

12 Subsidiaries (Continued)

The following is a list of the principal subsidiaries at 31 December 2019 (Continued)

Name	Date of incorporation	Place of incorporation and kind of legal entity	Share capital or paid-in capital	Interest held directly	Interest held indirectly	Principal activities and place of operation
3SP	08 October 2014	France, Limited liability company	EUR1,800,000	–	100%	Research, development, manufacturing and sales of chips and laser products, France
Cigatek Technology (HK) Limited	11 July 2019	Hong Kong, Limited liability company	HKD1	–	100%	Investment holding
Cigatek Technologies (Shenzhen) Limited	20 September 2019	Shenzhen, the PRC, Limited liability company	HKD15,000,000	–	100%	Design, manufacturing and sales of electronic cigarettes products, Shenzhen, the PRC
O-Net Technologies (Thailand) Limited	24 October 2019	Thailand, Limited liability company	HKD3,900,000	–	100%	Manufacturing and sales of of optical networking products, Thailand
O-Net Optronics (HK) Limited	17 July 2019	Hong Kong, Limited liability company	HKD1	–	100%	Investment holding

(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 2019, the Company contributed nil (2018: 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.

(c) 100% equity interest in O-Net Material Technology (Shenzhen) Co. Ltd was disposed by the Group in January 2019.

13 Investments Accounted for Using Equity Method

The amounts recognized in the balance sheet are as follows:

	2019 HKD'000	2018 HKD'000
Associates (a)	47,501	30,792
A joint venture (b)	–	327
At 31 December	47,501	31,119

(a) Investment in associates

As at 31 December 2019, 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	23.46%	Research and development optical subsystem solution

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:

	2019 HKD'000	2018 HKD'000
At 1 January	30,792	–
Additions	23,226	29,676
Share of (loss)/profit	(6,517)	1,116
At 31 December	47,501	30,792

13 Investments Accounted for Using Equity Method (Continued)

(b) Investment in a joint venture

	2019 HKD'000	2018 HKD'000
At 1 January	**327**	2,497
Addition	**2,700**	–
Share of loss	**(3,027)**	(2,170)
At 31 December	**–**	327

Note:

On 9 November 2018, O-Net Industrial, a subsidiary of the Company, entered into an Joint Venture Agreement ("Agreement") with OB Technologies (Hong Kong) Limited ("OB Hong Kong") to incorporate OB Technology Limited ("the New JV Company" or "OB Technology"), a Cayman company. The total registered capital of the New JV Company was HKD 10,000,000 with each of O-Net Industrial and OB Hong Kong investing HKD 5,000,000. In 2019, O-Net Industrial and OB Hong Kong has paid HKD 2,700,000 respectively and transferred their respective OB Technologies (Shenzhen) Limited ("the Previous JV Company" or "O-Net Butterfly") interest to the New JV Company as capital contribution according to the Agreement. Following the formation of OB Technology, the entire equity interest of the Previous JV Company shall be transferred to the New JV Company as a subsidiary. As stipulated in the Agreement, all significant financial and operational decisions must be decided jointly by O-Net Industrial and OB Hong Kong.

As at 31 December 2019, the Group had unrecognized accumulated share of losses of the joint ventures of HKD289,000 (2018:Nil).

14 Inventories

	2019 HKD'000	2018 HKD'000
Cost:		
Raw materials	**295,085**	286,453
Work-in-progress	**139,622**	97,845
Finished goods	**209,580**	140,587
	644,287	524,885
Less: provision for write-down of inventories to net realizable values	**(47,846)**	(23,860)
	596,441	501,025

For the year ended 31 December 2019, 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 approximately HKD1,261,552,000 (2018: HKD1,265,026,000).

For the year ended 31 December 2019, the Group recognised provision for write-down of inventories of HKD23,986,000 (2018: provision for write-down of inventories of HKD4,547,000).

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 2019 HKD'000	31 December 2018 HKD'000
Gross balance of contract assets	**21,472**	27,180
Loss allowance	**–**	–
Net balance of contract assets	**21,472**	27,180
Current contract liabilities – advances from customers	**9,047**	9,997

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:

	31 December 2019 HKD'000	31 December 2018 HKD'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year		
Sales of products	**6,403**	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

	2019 HKD'000	2018 HKD'000
Current portion		
Trade receivables (a)	**646,552**	692,019
Less: provision for impairment of receivables (b)	**(8,441)**	(1,046)
Trade receivables – net	**638,111**	690,973
Amounts due from related parties (a) (Note 38(d))	**2,354**	161
Bills receivable (c)	**146,283**	86,972
Prepayments	**27,826**	44,660
Interest receivables	**–**	611
Other receivables (d)	**62,014**	42,508
	876,588	865,885
Non-current portion		
Other receivables	**6,295**	126,832

16 Trade and Other Receivables (Continued)

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

At 31 December 2019 and 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.

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

	2019 HKD'000	2018 HKD'000
RMB	**572,819**	429,543
USD	**252,914**	464,120
EUR	**51,532**	80,116
CAD	**2,844**	1,475
HKD	**710**	16,189
Others	**2,064**	1,274
	882,883	992,717

(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:

	2019 HKD'000	2018 HKD'000
Within 30 days	**278,043**	312,916
31 to 60 days	**179,354**	180,922
61 to 90 days	**123,272**	133,089
91 to 180 days	**51,369**	58,893
181 to 365 days	**11,140**	4,525
Over 365 days	**3,475**	1,835
	646,653	692,180

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

	2019 HKD'000	2018 HKD'000
Past due 1 to 90 days	**115,117**	141,650
Past due 91 to 180 days	**12,008**	4,741
Past due 181 to 365 days	**9,061**	2,555
Past due over 365 days	**2,640**	1,680
	138,826	150,626

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 ECL which uses a lifetime expected loss allowance for all trade receivables and contract assets.

The loss allowance increased from HKD1,046,000 (as at 31 December 2018) to HKD8,441,000 (as at 31 December 2019) 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:

	2019 HKD'000	2018 HKD'000
Within 30 days	**32,614**	15,552
31 to 90 days	**62,721**	33,989
91 to 180 days	**50,380**	36,768
181 days to 365 days	**568**	663
	146,283	86,972

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

(d) Other receivables

Included in the other receivable is a balance due from Integrated Photonics, Inc. ("IPI"), a third-party supplier of the Group amounting to HKD26,102,000 (2018: HKD26,685,000), 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 has been paid in January 2020.

17 Other Current Asset

	2019 HKD'000	2018 HKD'000
Deferred expenses	**3,498**	4,186

18 Financial Assets at Fair Value Through Profit or Loss

	2019 HKD'000	2018 HKD'000
Equity investment with call and put options (a)	–	17,408
Highly liquid investments	–	7,483
	–	24,891

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 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 to 20 December 2019 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 managed the investment in WaveTouch Group on a fair value basis, the Group designated the investment in WaveTouch Group together with the other aforementioned financial assets related to the Share Swap Agreement as financials assets at FVPL.

The fair value of the call and put options of WaveTouch Group as at 31 December 2018 was estimated with inputs as follows:

	2018
Risk-free rate	0.75% & 2.46%
Expected volatility	39.41% & 29.78%
Expected dividend yield	0.00%

On 7 November 2019, the Group exercised the Put Option at a consideration of 2,000,000 Windar shares as the market value of 1,000,000 Windar Shares is less than USD2,500,000. As a result, the Group received 2,000,000 shares of Windar with a fair value being GBP650,000 (equivalent to approximately HKD6,578,000). Management did not hold these shares for trading purpose and therefore immediately designated them as financial assets at FVOCI (Note 11).

The differences between the fair value of these Windar shares on the exercise date and the previously recognised fair value of the financial assets at FVPL, being approximately HKD17,408,000 as at 1 January 2019, were recognised in the Group's consolidated statement of profit or loss as "loss on disposal of equity investment with call and put option" under "Other gains-net" (Note 28).

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

	2019 HKD'000	2018 HKD'000
Cash and cash equivalents	481,100	341,591
Pledged bank deposits (a)	10,718	65,672
	491,818	407,263

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

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

	2019 HKD'000	2018 HKD'000
RMB	247,386	253,734
USD	179,768	143,890
Others	64,664	9,639
	491,818	407,263

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 2018	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)
Cancellation of treasury shares	**(1,190,000)**	**(12)**	**(4,123)**	**4,135**
Repurchase of shares	**(217,000)**	**(2)**	**(787)**	**–**
Allotment of shares	**18,881,000**	**189**	**–**	**(189)**
Exercise of share options	**7,352,000**	**74**	**12,873**	**–**
Share award schemes – vesting of awarded shares	**–**	**–**	**–**	**27,148**
At 31 December 2019	**826,860,240**	**8,269**	**1,113,552**	**(29,753)**

During the year ended 31 December 2019, the Company repurchased 217,000 ordinary shares and cancelled 1,407,000 ordinary shares, of which 1,190,000 ordinary shares were repurchased in 2018 and cancelled in 2019 at the amount of HKD4,135,000, and another 217,000 ordinary shares were repurchased and cancelled in 2019 at the amount of HKD790,000.

During the year ended 31 December 2019, 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 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

21 Other Reserves (Continued)

	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	Remeasurements of post-employment benefit obligations HKD'000	Total HKD'000
At 1 January 2019	1,330	183,205	(85,421)	(39,172)	(3,024)	–	56,918
Share award schemes – value of services	–	35,780	–	–	–	–	35,780
Share award schemes – vesting of awarded shares	–	(27,148)	–	–	–	–	(27,148)
Currency translation differences	–	–	–	(45,892)	–	–	(45,892)
Changes in the fair value of equity investments at fair value through other comprehensive income	–	–	–	–	(4,176)	–	(4,176)
Remeasurements of post–employment benefit obligations	–	–	–	–	–	(1,015)	(1,015)
At 31 December 2019	1,330	191,837	(85,421)	(85,064)	(7,200)	(1,015)	14,467

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 2.11. 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.

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 2019	Exercise price	Vesting date
10 October 2011	Tranches 1, 2, 3, 4 & 5: 800,000 (Total:4,000,000)	–	HKD1.870	Tranches 1, 2, 3, 4 & 5 (for a senior management personnel): vesting period commences at the end of the anniversary of the grant date, equally over a period of 5 years.
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)	3,827,000	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.

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 2019	Exercise price	Vesting date
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 April 2013	Tranche 1: 200,000 Tranche 2: 2,350,000 Tranche 3: 350,000 (Total: 2,900,000)	300,000	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)	70,000	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)	1,200,000	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)	1,112,000	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)	664,000	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.
		7,173,000		

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:

	2019 Average exercise price in HKD per share option	2019 Options (thousands)	2018 Average exercise price in HKD per share option	2018 Options (thousands)
At 1 January	**1.80**	**14,545**	1.78	19,044
Forfeited	**2.40**	**(20)**	1.48	(520)
Exercised	**1.76**	**(7,352)**	1.76	(3,979)
At 31 December	**1.84**	**7,173**	1.80	14,545

As at 31 December 2019, out of the 7,173,000 outstanding options (2018: 14,545,000 outstanding options) 7,173,000 options (2018: 14,311,000 options) were exercisable. 7,352,000 options were exercised in 2019 (2018: 3,979,000 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 2019	Options (thousands) 2019	Options (thousands) 2018
2020	1.84	**7,173**	14,545

(iv) Fair value of options

No share options were granted during 2019 and 2018. 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 consolidated statement of profit or loss 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 2019 are as follows:

	2019	2018
At beginning of the year	**37,008,450**	31,554,250
Granted	**6,510,000**	16,230,000
Lapsed	**(1,801,000)**	(1,781,800)
Vested and transferred	**(9,869,800)**	(8,994,000)
At end of the year	**31,847,650**	37,008,450

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.

The weighted average fair value of awarded shares granted during the year ended 31 December 2019 was HKD4.03 per share (equivalent to approximately RMB3.61 per share) (2018: HKD4.10 per share (equivalent to approximately RMB3.55 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

	2019 HKD'000	2018 HKD'000
At 1 January	**1,139,778**	877,986
Profit for the year	**117,388**	261,792
Dividends declared and paid in respect of the current year	**15,160**	–
At 31 December	**1,242,006**	1,139,778

24 Deferred Government Grants

	2019 HKD'000	2018 HKD'000
At 1 January	**11,676**	15,107
Receipt of grant during the year (a)	**4,716**	2,365
Credited to statement of profit or loss	**(3,110)**	(5,200)
Currency translation difference	**(199)**	(596)
At 31 December	**13,083**	11,676

(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 EUR541,000 (equivalent to approximately HKD4,716,000) in 2019 (2018: RMB2,000,000 (equivalent to HKD2,365,000)).

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

	2019 HKD'000	2018 HKD'000
Current		
Trade payables (a)	**229,144**	238,616
Bills payable (c)	**55,758**	63,397
Accrued expenses	**16,134**	31,166
Accrued staff costs	**81,400**	66,145
Other payables	**40,903**	15,189
Other taxes payable	**9,683**	14,237
	433,022	428,750
Non-current		
Post-employment benefit obligations (d)	**10,267**	–

At 31 December 2019 and 2018, the fair value of trade and other payables of the Group approximated their carrying amounts due to their short maturities.

25 Trade and Other Payables (Continued)

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

	2019 HKD'000	2018 HKD'000
Within 30 days	139,888	148,594
31 days to 60 days	42,717	41,571
61 days to 180 days	20,977	27,222
181 days to 365 days	11,583	9,776
Over 365 days	13,979	11,453
	229,144	238,616

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

	2019 HKD'000	2018 HKD'000
RMB	263,983	278,911
USD	110,767	132,418
CAD	13,682	14,910
HKD	12,238	1,366
Others	32,352	1,145
	433,022	428,750

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

	2019 HKD'000	2018 HKD'000
Within 30 days	10,857	31,054
31 to 90 days	20,402	10,307
91 to 180 days	24,499	22,036
	55,758	63,397

25 Trade and Other Payables (Continued)

(d) Under the employment laws in France, the Company is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees. The amount payable is dependent on the employee's salary and years of service, and is reduced by entitlements accrued under the Company's defined contribution retirement scheme, if applicable, that is attributable to contributions made by the Company. The Company does not set aside any assets to fund any remaining obligations. An actuarial valuation of the aforementioned post-employment benefit obligations for the Company's operation in France was carried out at 31 December 2019 using the projected unit credit method.

	2019 HKD'000
Present value of unfunded obligations	**10,267**

The amounts recognised in the consolidated financial statements are as follows:

	2019 HKD'000
At 1 January	–
Acquisition of subsidiaries (Note 37)	**8,729**
Defined benefit cost recognised in profit or loss	**816**
Remeasurement effects recognised in other comprehensive expense	**1,015**
Translation difference	**(293)**
At 31 December	**10,267**

The amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2019 HKD'000
Profit or loss	
Current service costs	**680**
Interest expenses	**136**
Defined benefit cost recognised in profit or loss	**816**
Other comprehensive income	
Actuarial loss due to financial assumption changes	**1,015**
Remeasurement effects recognised in other comprehensive expense	**1,015**
	1,831

The principal actuarial assumptions used are as follows:

	2019
Discount rate	**0.8%**
Long term salary increase rate	**2.0%**

26 Borrowings

	2019 HKD'000	2018 HKD'000
Current		
Bank borrowings, secured	–	34,238
Bank borrowings, unsecured	**591,030**	453,532
	591,030	487,770

Bank borrowings will mature in 2020 and bear average coupons of 4.45% per annum (2018: 4.39% per annum).

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

	2019 HKD'000	2018 HKD'000
USD	–	39,164
RMB	**546,116**	383,606
HKD	**44,914**	65,000
	591,030	487,770

The Group has the following undrawn borrowing facilities:

	2019 HKD'000	2018 HKD'000
Fixed rate:		
– Expiring within one year	**446,256**	185,728

The facilities expiring within one year are annual facilities subject to review at various dates during 2019.

27 Deferred Income Tax

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

	2019 HKD'000	2018 HKD'000
Total deferred tax assets	**28,622**	13,092
Set-off of deferred tax liabilities pursuant to set-off provisions	**(27,326)**	(12,394)
Net deferred tax assets	**1,296**	698
Total deferred tax liabilities	**45,243**	24,347
Set-off of deferred tax assets pursuant to set-off provisions	**(27,326)**	(12,394)
Net deferred tax liabilities	**17,917**	11,953

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	Lease liabilities HKD'000	Total HKD'000
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
At 1 January 2019	**3,136**	**3,023**	**1,753**	**652**	**422**	**4,106**	**–**	**13,092**
Credited/(charged) to the consolidated statement of profit or loss	**3,961**	**4,140**	**(467)**	**700**	**(101)**	**7,171**	**686**	**16,090**
Translation difference	**(139)**	**(141)**	**(30)**	**(27)**	**–**	**(220)**	**(3)**	**(560)**
At 31 December 2019	**6,958**	**7,022**	**1,256**	**1,325**	**321**	**11,057**	**683**	**28,622**

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 HKD31,422,000 (2018: HKD21,968,000) in respect of losses amounting to HKD126,962,000 (2018: HKD81,681,000) that can be carried forward against future taxable income. Losses amounting to HKD5,631,000 (2018: Nil), HKD47,668,000 (2018: HKD47,668,000), HKD6,620,000 (2018: HKD6,620,000), HKD14,782,000 (2018: Nil)expire in 2025, 2037, 2038 and 2039 respectively, and HKD52,259,000 (2018: HKD25,844,000) 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 2019, deferred income tax liabilities of approximately HKD121,753,000 (2018: HKD111,879,000) had not been recognized for withholding tax that would be payable on the unremitted earnings of approximately HKD1,217,528,000 (2018: HKD1,119,000,000) 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 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
At 1 January 2019	**21,827**	**2,520**	**24,347**
Acquisition of a subsidiary (Note 37)	**–**	**16,148**	**16,148**
Charged to the consolidated statement of profit or loss	**7,417**	**(2,053)**	**5,364**
Translation difference	**(612)**	**(4)**	**(616)**
At 31 December 2019	**28,632**	**16,611**	**45,243**

28 Other Gains – Net

	2019 HKD'000	2018 HKD'000
Government grants (a)	**13,671**	41,000
Rental income	**682**	715
Gain on sales of scrapped or surplus raw materials	**4,718**	3,196
Gain on disposal of property, plant and equipment – net	**32**	874
Gain on disposal of a subsidiary	**301**	–
Gain on disposal of highly liquid investments (Note 18)	**242**	–
Loss on disposal of derivative financial instruments	**(97)**	–
Loss on disposal of equity investment with call and put option (Note 18)	**(10,830)**	–
Fair value loss on derivative financial instruments	**–**	(2,723)
Net foreign exchange gain	**3,336**	21,373
Others	**634**	(222)
	12,689	64,213

(a) Included in the government grant are amortisation of deferred government grant of HKD3,110,000 (2018: HKD5,200,000), 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:

	2019 HKD'000	2018 HKD'000
Staff costs – excluding share options granted to directors and employees (Note 30)	**593,616**	671,870
Share options and share award granted to directors and employees (Note 30)	**35,780**	42,554
Subcontracting costs	**172,289**	–
Raw materials consumed	**1,289,442**	1,340,605
Changes in inventories of finished goods and work in progress (Note 14)	**(27,890)**	(75,578)
Depreciation of property, plant and equipment (Note 7)	**118,443**	100,456
Depreciation of rights-of-use assets (Note 6)	**13,532**	–
Amortisation (Notes 6,9)	**22,258**	13,438
Provision for impairment of receivables (Note 3.1)	**7,619**	676
Provision for impairment of property, plant and equipment (Note 7)	**21,144**	–
Provision for impairment of development expenditure (Note 9)	**4,670**	–
Provision for write-down of inventories (Note 14)	**24,869**	4,547
Sales commissions	**10,841**	16,165
Utilities charges	**56,822**	50,717
Rental expenses for short-term leases (Note 6)	**9,114**	–
Operating lease rental (Note 6)	**–**	9,631
Freight charges	**23,202**	20,562
Auditors' remuneration	**3,226**	2,720
Professional and consultancy fees	**19,111**	15,509
Travelling expenses	**14,147**	10,828
Advertising costs	**1,878**	2,089
Other tax expenses	**21,883**	15,921
Others	**17,162**	28,557
	2,453,158	2,271,267

30 Employee Benefit Expense

	2019 HKD'000	2018 HKD'000
Salaries, bonus and other welfares	**578,031**	647,808
Pension – defined contribution plans	**15,585**	24,062
Share options and share award granted to directors and employees	**35,780**	42,554
	629,396	714,424

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 2019 and 2018, 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 Expense

	2019 HKD'000	2018 HKD'000
Finance expense		
– Bank borrowings	**(28,956)**	(28,202)
– Finance costs for lease liabilities (Note 6)	**(2,853)**	–
– Other bank charges	**(1,250)**	(4,197)
Total finance expenses	**(33,059)**	(32,399)
Finance income		
– Interest income derived from bank deposits	**4,299**	3,884
– Exchange gain	**11,112**	2,310
Total finance income	**15,411**	6,194
Net finance expense	**(17,648)**	(26,205)

32 Income Tax Expenses

	2019 HKD'000	2018 HKD'000
Current income tax		
– Hong Kong profits tax (b)	**9,872**	14,703
– USA profits tax (c)	**–**	–
– Canada profits tax (d)	**205**	3,446
– PRC enterprise income tax (e)	**4,780**	969
Under/(over) provision in respect of prior years	**389**	(6,334)
Total current income tax	**15,246**	12,784
Deferred income tax (Note 27)	**(10,726)**	11,111
Income tax expenses	**4,520**	23,895

(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 26.6% and 26.5% respectively.

(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%.

32 Income Tax Expenses(Continued)

(f) The applicable tax rate for 3SP is 31%.

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:

	2019 HKD'000	2018 HKD'000
Profit before income tax	**113,300**	282,109
Tax calculated at statutory tax rates applicable to entities comprising the Group	**15,925**	45,864
Tax effect of:		
Research and development costs eligible for additional deduction	**(30,745)**	(28,289)
Utilization of previously unrecognized tax losses	**(185)**	(2,244)
Under/(over) provision in prior years	**389**	(6,334)
Tax losses of which no deferred income tax asset was recognized	**9,454**	6,542
Changes in the applicable tax rate	**–**	153
Expenses not deductible for tax purposes		
– Share option expenses	**8,680**	8,084
– Others	**1,002**	119
Income tax expenses	**4,520**	23,895

33 Dividends

The Board does not recommend any final dividend for the year ended 31 December 2019 (2018: HKD0.02 per share).

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.

	2019 HKD'000	2018 HKD'000
Profit attributable to equity holders of the Company (HKD'000)	117,388	261,792
Weighted average number of ordinary shares in issue (thousands)	768,526	748,857
Basic EPS (HKD per share)	0.15	0.35

(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.

	2019 HKD'000	2018 HKD'000
Profit attributable to equity holders of the Company (HKD'000)	117,388	261,792
Weighted average number of ordinary shares in issue (thousands shares)	768,526	748,857
Adjustments for share options and share award (thousands shares)	32,346	15,608
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	800,872	764,465
Diluted EPS (HKD per share)	0.15	0.34

35 Cash Generated From Operations

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

	2019 HKD'000	2018 HKD'000
Profit before income tax	**113,300**	282,109
Adjustments for:		
Depreciation and amortisation (Note 6, 7, 9)	**154,233**	113,894
Provision for write-down of inventories (Note 14)	**24,869**	4,547
Provision of impairment of receivables (Note 3.1)	**7,619**	676
Provision for impairment of property, plant and equipment (Note 7)	**21,144**	–
Loss on disposal of property, plant and equipment	**(32)**	(874)
Interest income (Note 31)	**(4,299)**	(3,884)
Interest expense (Note 31)	**31,809**	28,202
Share of loss of investments accounted for using equity method (Note 13)	**9,544**	1,054
Fair value gain on financial asset at FVPL	**–**	2,723
Loss on disposal of derivative financial instruments (Note 28)	**97**	–
Loss on disposal of equity investment with call and put option (Note 18)	**10,830**	–
Gain on disposal of highly liquid investments (Note 28)	**(242)**	–
Gain on disposal of a subsidiary (Note 28)	**(301)**	–
Provision for impairment of development expenditure (Note 9)	**4,670**	–
Fair value of share options and share award charged to profit or loss (Note 30)	**35,780**	42,554
Changes in working capital:		
– Pledged bank deposit (Note 19)	**54,954**	(51,173)
– Inventories	**(66,112)**	(127,202)
– Trade and other receivables	**9,873**	5,348
– Contract assets (Note 15)	**5,708**	(27,180)
– Trade and other payables	**(97,664)**	93,404
– Contract liabilities (Note 15)	**(950)**	946
Cash generated from operating activities	**314,830**	365,144

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	2019 HKD'000	2018 HKD'000
Cash and cash equivalents	**481,100**	341,591
Borrowings – repayable within one year (including overdraft)	**(591,030)**	(487,770)
Lease liabilities	**(50,109)**	–
Net debt	**(160,039)**	(146,179)
Cash and liquid investments	**481,100**	341,591
Gross debt – fixed interest rates	**(527,567)**	(57,065)
Gross debt – variable interest rates	**(113,572)**	(430,705)
Net debt	**(160,039)**	(146,179)

	Other assets	Liabilities from financing activities			
	Cash/bank overdraft HKD'000	Lease liabilities 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 2018	341,591	–	(487,770)	–	(146,179)
Recognised on adoption of HKFRS 16 (Note 2.2)	–	(45,538)	–	–	(45,538)
	341,591	(45,538)	(487,770)	–	(191,717)
Cash flows	145,040	11,430	(121,809)	–	34,661
Acquisition - leases	–	(13,488)	–	–	(13,488)
Foreign exchange adjustments	(5,531)	340	18,549	–	13,358
Interest expense	–	(2,853)	–	–	(2,853)
Net debt as at 31 December 2019	481,100	(50,109)	(591,030)	–	(160,039)

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:

	2019 **HKD'000**	2018 HKD'000
Not later than one year	**973**	13,576
Later than one year	**–**	65,851
	973	79,427

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for leases that are either short-term or contracted for but have not commenced as at 31 December 2019. See Note 6 for further information.

Capital Commitments

	2019 **HKD'000**	2018 HKD'000
Capital expenditure contracted but not provided for	**33,580**	4,167

37 Business Combination

As explained in Note 8, on 19 March 2019, the Group completed the acquisition of 3SP by acquiring the 100% equity interest of API through the subscription of 9,999 API's ordinary shares (the "Subscripton Shares") by entering into the Supplemental Agreement with API and its sole shareholder, pursuant to which (a) the Group agreed to subscribe for the Subscripton Shares; (b) the Group agreed to advance to API the shareholder's loan of USD13,500,000 for the repayment of amount due from API to API's sole shareholder (the "Shareholder's loan"); and (c) API's sole shareholder agreed to convert 1 ordinary share into 1 non-voting deferred share (the "Deferred Share Conversion"). API's sole shareholder transferred the 1 non-voting deferred share to the Group on 3 December 2019.

As the result of the acquisition, the Group is expected to extend its research, development and manufacturing capability, and to diversify its products range from optical products and solutions to chips, laser products and solutions.

37 Business Combination (Continued)

The total consideration comprises (a) HKD9,999 for the subscription of Subscription Shares; (b) USD13,500,000 (equivalent to approximately HKD105,300,000) for the provision of the Shareholder's Loan; and (c) USD6,382,718 (equivalent to approximately HKD49,785,000) for the Deferred Share Conversion.

	HKD'000
Prepayment paid in prior years (Note 8)	155,095
Total consideration	155,095
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 7)	59,305
Other non-current prepayments (Note 8)	32,857
Intangible assets (Note 9)	71,130
FVOCI (Note 11)	11,127
Inventories (Note 14)	54,173
Trade and other receivables (Note 16)	49,579
Cash and cash equivalents (Note 19)	12,561
Deferred income tax liabilities (Note 27)	(16,148)
Trade and other payables (Note 25)	(205,529)
Post-employment benefit obligations (Note 25)	(8,729)
Total identifiable net assets	60,326
Goodwill (Note 9)	94,769
	155,095

For the purpose of purchase price allocation for the acquisition, management engaged an external valuer to value the assets and liabilities acquired in the acquisition, including the identification and valuation of intangible assets.

The fair value of the intangible assets acquired was determined using the discounted cash flow valuation techniques. The key assumptions include the discount rate, revenue growth rate, technological obsolescence rate and reaming useful lives of the intangible assets.

The goodwill is attributable to the value of expected synergies arising from combining operations of the Group and API Group and assembled workforce of API Group for the group of cash generating units under the optical networking business. It will not be deductible for tax purposes.

There were no acquisitions in the year ended 31 December 2018.

Acquisition-related costs of HKD125,000 have been charged to administrative expenses in the consolidated statement of profit or loss for the year ended 31 December 2019.

The revenue included in the Group's consolidated statement of profit or loss since acquisition date contributed by API Group was HKD63,547,000. API Group also incurred loss of HKD44,019,000 over the same period.

Had API Group been consolidated from 1 January 2019, the Group's consolidated statement of profit or loss for the year ended 31 December 2019 would show proforma revenue of HKD2,606,480,000 and profit of HKD95,685,000.

38 Related Party Transactions

(a) Name and Relationship with Related Parties

Name	Relationship
Butterfly Technology (Shenzhen) Ltd., Co. ("Butterfly Technology")	Controlled by key management personnel of the Company.
OB Technologies Limited	Joint Venture

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

(b) Transactions with Related Parties

The Group had undertaken the following significant transactions with related parties during the years ended 31 December 2019 and 2018:

	2019 HKD'000	2018 HKD'000
Sales of products		
O-Net Butterfly	**32**	55
Butterfly Technology	**780**	1,423
	812	1,478
Rental income received from a related party		
Butterfly Technology	**682**	710

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) and the senior management of the Group.

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

	2019 HKD'000	2018 HKD'000
Salaries, bonus and other welfares	**31,531**	27,475
Pension – defined contribution plans	**349**	126
Share option expenses	**7,481**	6,162
	39,361	33,763

38 Related Party Transactions (Continued)

(d) Balances with Related Parties

The Group had the following balances with related parties at 31 December 2019 and 2018:

	2019 HKD'000	2018 HKD'000
Trade receivables (i)		
Butterfly Technology	91	–
O-Net Butterfly	11	53
	102	53
Other receivables (i)		
O-Net Butterfly	2,252	108

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

39 Subsequent Event

Following the outbreak of Coronavirus Disease 2019 (the "COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the PRC, including but not limited to extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday, and certain level of travel and traffic restrictions.

The operation of the Group's production plant in Shenzhen (the "Shenzhen Production Plant") was temporarily suspended after the extended Chinese New Year holiday as part of the Chinese government's countermeasures in containing the COVID-19 outbreak, but has already resumed recently.

Based on the Group's latest assessment, the COVID-19 outbreak is only expected to affect the global telecommunications markets temporarily. Moreover, outside of the Shenzhen Production plant, the Group operates research and development centres across the world through its subsidiaries in France, Canada and USA which mitigates the concentration risks from the COVID-19 outbreak.

As at the date of this report, the Group was not aware of any material adverse effects on the financial statements financial position and operating results.

Nevertheless, the Group will continue to monitor the development of the of COVID-19 outbreak and take appropriate measures as necessary.

40 Balance Sheet and Reserve Movement of the Company

Balance Sheet of the Company

	Note	As at 31 December 2019 HKD'000	 2018 HKD'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**638,220**	602,441
Current assets			
Trade and other receivables		**2,623**	1,170
Amounts due from subsidiaries		**626,106**	652,473
Cash and cash equivalents		**14,390**	6,832
		643,119	660,475
Total assets		**1,281,339**	1,262,916
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**8,269**	8,020
Share premium		**1,113,553**	1,105,589
Treasury shares		**(29,753)**	(60,847)
Other reserves	*(a)*	**158,257**	156,313
Retained earnings		**(37,288)**	(22,221)
Total equity		**1,213,038**	1,186,854
LIABILITIES			
Current liabilities			
Trade and other payables		**68,301**	76,062
Total liabilities		**68,301**	76,062
Total equity and liabilities		**1,281,339**	1,262,916

The balance sheet of the Company was approved by the Board of Directors on 17 March 2020 and was signed on its behalf.

Na Qinglin
Director

Deng Xinping
Director

40 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 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
At 1 January 2019	**1,305**	**151,921**	**3,087**	**156,313**
Share option scheme				
– value of services	**–**	**35,780**	**–**	**35,780**
Share award schemes				
– vesting of awarded shares	**–**	**(27,148)**	**–**	**(27,148)**
Currency translation				
differences	**–**	**–**	**(6,688)**	**(6,688)**
At 31 December 2019	**1,305**	**160,553**	**(3,601)**	**158,257**

41 Benefits and Interests of Directors

(a) Directors' Emoluments

The remuneration of each director of the Company for the year ended 31 December 2019 is set out below:

Name of director	Fees HKD'000	Salary HKD'000	Share options expense HKD'000	Other benefits and allowance HKD'000	Pension scheme contribution HKD'000	Share award scheme expense HKD'000	Total HKD'000
Mr. Na Qinglin (i)	**267**	**4,200**	**–**	**1,050**	**18**	**1,309**	**6,844**
Mr. Chen Zhujiang	**–**	**134**	**–**	**–**	**–**	**–**	**134**
Mr. Huang Bin	**–**	**134**	**–**	**–**	**–**	**–**	**134**
Mr. Mo Shangyun	**–**	**134**	**–**	**–**	**–**	**–**	**134**
Mr. Deng Xinping	**268**	**–**	**–**	**–**	**–**	**–**	**268**
Mr. Ong Chor Wei	**268**	**–**	**–**	**–**	**–**	**–**	**268**
Mr. Zhao Wei	**268**	**–**	**7**	**–**	**–**	**–**	**275**
	1,071	**4,602**	**7**	**1,050**	**18**	**1,309**	**8,057**

Notes to the Consolidated Financial Statements

41 Benefits and Interests of Directors (Continued)

(a) Directors' Emoluments (Continued)

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

(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 2019 (2018: one), whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining four (2018: four) individuals are as follows:

	2019 HKD'000	2018 HKD'000
Basic salaries	9,840	12,848
Pension costs	153	90
Bonus	1,534	2,479
Share option expenses	4,596	5,646
	16,123	21,063

41 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:

	2019	2018
Emolument bands		
HKD2,500,001 – HKD3,000,000	1	2
HKD3,500,001 – HKD4,000,000	2	–
HKD4,000,001 – HKD4,500,000	–	1
HKD5,000,001 – HKD5,500,000	–	1
HKD5,500,001 – HKD6,000,000	1	–
HKD6,000,001 – HKD6,500,000	–	1
HKD6,500,001 – HKD7,000,000	1	–

No emoluments has been paid to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2019 (2018: 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 (2018: Nil).

(d) Directors' termination benefits

No termination on the appointment of director and chief executive of the Company and certain subsidiaries occurred in 2019, thus no related termination benefits was paid.

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2018: Nil).

Five-Year Financial Summary

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

CONSOLIDATED INFORMATION

For the year ended 31 December

	2019 HKD'000	2018 HKD'000	2017 HKD'000	2016 HKD'000	2015 HKD'000
Profitability and operating data					
Turnover	**2,580,961**	2,516,422	2,035,085	1,598,319	1,135,495
Gross profit	**750,257**	787,992	726,473	569,685	362,557
Selling and marketing costs	**81,490**	78,975	76,152	63,408	49,450
Research and development expenses	**270,818**	247,552	230,820	187,812	135,080
Administrative expenses	**262,527**	215,634	177,126	177,501	134,024
Profit before income tax	**113,300**	282,109	248,942	154,366	82,078
Profit for the year	**108,780**	258,214	205,832	128,805	79,249
Profit attributable to equity holders of the Company	**117,388**	261,792	208,867	130,603	82,535
Profitability ratios					
Gross profit margin	**29.1%**	31.3%	35.7%	35.6%	31.9%
Profit before tax margin	**4.4%**	11.2%	12.2%	9.7%	7.2%
Profit* margin	**4.5%**	10.4%	10.3%	8.2%	7.3%
Operating ratios (as a percentage of revenue)					
Selling and marketing costs	**3.2%**	3.1%	3.7%	4.0%	4.4%
Research and development expenses	**10.5%**	9.8%	11.3%	11.8%	11.9%
Administrative expenses	**10.2%**	8.6%	8.7%	11.1%	11.8%

As at 31 December

	2019 HKD'000	2018 HKD'000	2017 HKD'000	2016 HKD'000	2015 HKD'000
Assets and liabilities data					
Non-current assets	**1,503,717**	1,388,930	1,322,909	999,440	858,707
Current assets	**1,989,817**	1,830,430	1,780,979	1,487,191	914,258
Non-current liabilities	**78,778**	23,629	17,605	62,752	15,852
Current liabilities	**1,076,779**	948,267	1,053,188	995,176	422,284
Equity	**2,337,977**	2,247,464	2,033,095	1,428,703	1,334,829

* Profit means profit attributable to equity holders of the Company