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# 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 RESULTS FOR YEAR ENDED 31 DECEMBER 2015

### RESULTS

The Board (the “Board”) of Directors (the “Directors”) of O-Net Technologies (Group) Limited (the “Company”) is pleased to announce the preliminary consolidated annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2015. These results have been reviewed by the Company’s audit committee (the “Audit Committee”).

## CONSOLIDATED INCOME STATEMENT

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

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2015** | 2014 |
| | *Note(s)* | ***HKD'000*** | *HKD'000* |
| Revenue | *3* | **1,135,495** | 831,280 |
| Cost of sales | *5* | **(772,938)** | (542,331) |
| **Gross profit** | | **362,557** | 288,949 |
| Other gains – net | *4* | **36,895** | 8,506 |
| Selling and marketing costs | *5* | **(49,450)** | (36,386) |
| Research and development expenses | *5* | **(135,080)** | (105,952) |
| Administrative expenses | *5* | **(134,024)** | (107,206) |
| **Operating profit** | | **80,898** | 47,911 |
| Finance income | | **9,448** | 8,511 |
| Finance expenses | | **(5,676)** | – |
| Share of losses of investments accounted for using the equity method | | **(2,592)** | (5,058) |
| **Profit before income tax** | | **82,078** | 51,364 |
| Income tax expenses | *6* | **(2,829)** | (8,020) |
| **Profit for the year** | | **79,249** | 43,344 |
| **Profit attributable to:** | | | |
| Owners of the Company | | **82,535** | 43,344 |
| Non-controlling interests | | **(3,286)** | – |
| | | **79,249** | 43,344 |
| **Earnings per share for profit attributable to equity holders of the Company** *(HKD per share)* | | | |
| – Basic | *7* | **0.12** | 0.06 |
| – Diluted | *7* | **0.12** | 0.06 |
| Dividend | *8* | **–** | – |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

## CONSOLIDATED BALANCE SHEET

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

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

| | Note(s) | As at 31 December 2015 HKD'000 | 2014 HKD'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred government grants | | **15,852** | 14,176 |
| **Current liabilities** | | | |
| Trade and other payables | *10* | **340,897** | 201,822 |
| Current income tax liabilities | | **3,141** | 9,682 |
| Other current liabilities | | **3,817** | – |
| Borrowings | | **74,429** | – |
| | | **422,284** | 211,504 |
| **Total liabilities** | | **438,136** | 225,680 |
| **Total equity and liabilities** | | **1,772,965** | 1,547,160 |

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

O-Net Technologies (Group) Limited (the "Company"), formerly known as "O-Net Communications (Group) Limited", was incorporated in the Cayman Islands on 12 November 2009, as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company is an investment holding company and has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") since 29 April 2010 (the "IPO"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company changed its name to the present name with the approval of the Board of Directors on 4 December 2015.

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of Preparation

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

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

*2.1.1 Changes in accounting policy and disclosures*

(a) New and amended standards adopted by the Group

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

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

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

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

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

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

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

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

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

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

## 2.2 Subsidiaries

### *2.2.1 Consolidation*

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

Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

*2.2.2 Separate financial statements*

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

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

**2.3 Associates**

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

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

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

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

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

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

### 2.4 Joint Arrangements

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

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

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

### 2.5 Segment Reporting

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

### 2.6 Foreign Currency Translation

*(a) Functional and Presentation Currency*

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

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

*(b) Transactions and Balances*

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

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

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

*(c) Group Companies*

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

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

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

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

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

### 2.7 Land Use Right

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

### 2.8 Property, Plant and Equipment

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

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

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

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

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

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

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

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

### 2.9 Intangible Assets

*(a) Goodwill*

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

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

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

*(b) License and trademark*

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 5 to 7 years.

*(c) Patent*

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

*(d) Computer Software*

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

## 2.10 Impairment of Non-financial Assets

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

## 2.11 Financial Assets

### *2.11.1 Classification*

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

*2.11.2 Recognition and Measurement*

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

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

## 2.12 Impairment of Financial Assets

*(a) Assets carried at amortized cost*

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

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

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

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

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

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

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

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

**2.13 Derivative financial instruments**

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

**2.14 Inventories**

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

**2.15 Trade and Other Receivables**

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

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

**2.16 Cash and Cash Equivalents**

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

**2.17 Share Capital**

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

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

**2.18 Treasury Shares**

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

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

**2.19 Trade Payables**

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

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

### 2.20 Borrowings

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

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

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

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

### 2.21 Borrowing Costs

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

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

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

### 2.22 Current and Deferred Income Tax

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

*(a) Current income tax*

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

*(b)* *Deferred income tax*

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

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

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

*(c)* *Offsetting*

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

### 2.23 Employee Benefits

*(a)* *Employee Leave Entitlements*

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

*(b)* *Pension Obligations*

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

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

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

*(c)* *Share-based compensation benefits*

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

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

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

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

### 2.24 Share-based Payments

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

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

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

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

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

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

Under the Pre-IPO Share Option Scheme, the shares authorized for the issuance of options are shares of a shareholder of the Company (see Note 35 for more details). Under the Post-IPO Share Option Scheme, the shares authorized for issuance of options are the shares of the Company.

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

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

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

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

*(b) Share-based payment transactions among group entities*

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

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

### 2.25 Provisions

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

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

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

### 2.26 Revenue Recognition

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

(a) *Sales of Goods*

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

(b) *Interest Income*

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

(c) *Dividend income*

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

**2.27 Research and Development Costs**

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

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

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

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

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

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

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

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

Development assets are tested for impairment annually.

### 2.28 Operating Leases

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

### 2.29 Government Grants

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

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

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

### 2.30 Dividend Distribution

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

## 3 SEGMENT REPORTING

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

Due to the fact that the Group continued to diversify its product ranges, starting from the second half of 2010, the senior executive management team no longer review and assess the performance of each individual product or a particular category of products. Instead, they assess performance and allocate resources according to the total revenues derived from each customer. Gross/net profits and costs are managed in aggregate on entity level, not on individual product or customer level. As a result of such change, the CODM considers that the Group has only one single operating segment and no segment information was disclosed.

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

(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:

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

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

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

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

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

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

## 4. OTHER GAINS – NET

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

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

## 5. EXPENSES BY NATURE

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

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

## 6. INCOME TAX EXPENSES

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

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

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

(c) The applicable tax rate for O-Net Communications (USA), Inc. is 34%.

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

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

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

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

## 7. EARNINGS PER SHARE

### (a) Basic

Basic earnings per share ("EPS") are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

| | **2015** | 2014 |
|---|---|---|
| Profit attributable to equity holders of the Company *(HKD'000)* | **82,535** | 43,344 |
| Weighted average number of ordinary shares in issue *(thousands)* | **686,825** | 687,295 |
| Basic EPS *(HKD per share)* | **0.12** | 0.06 |

### (b) Diluted

Diluted EPS are calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted by the Company (collectively forming the denominator for computing the diluted EPS).

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | **2015** | 2014 |
|---|---|---|
| Profit attributable to equity holders of the Company *(HKD'000)* | **82,535** | 43,344 |
| Weighted average number of ordinary shares in issue *(thousands shares)* | **686,825** | 687,295 |
| Adjustments for share options *(thousands shares)* | **1,883** | 2,686 |
| Weighted average number of ordinary shares for the calculation of diluted earnings per share *(thousands shares)* | **688,708** | 689,981 |
| Diluted EPS *(HKD per share)* | **0.12** | 0.06 |

## 8. DIVIDENDS

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

## 9. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

The credit period generally granted to customers is from 30 to 150 days. The ageing analysis of trade receivables based on invoice date is as follows:

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

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

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

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

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

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

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

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

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

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

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

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

**(d) Other receivables**

Included in the other receivable is a balance due from Integrated Photonics, Inc. ("IPI"), a third-party supplier of the Group amounting to HKD27,908,000 (2014: HKD29,640,000), pursuant to an agreement signed between O-net Shenzhen, a subsidiary of the Company, and IPI in 2014. Under the agreement, O-Net Shenzhen will ensure stable supply of goods by IPI from 2014 to 2019. In return, O-Net Shenzhen paid USD3,434,000 (equivalent to HKD29,640,000) to purchase 2,600 troy ounces of platinum ("Platinum") and deliver the Platinum to IPI for production capacity expansion purpose. IPI will keep the Platinum insured against loss or damage at all times during the term until IPI has repaid the full amount of the cost of Platinum to O-Net Shenzhen after 5 years. As security for such receivable, O-Net Shenzhen was granted a first priority lien by IPI over the Platinum.

## 10. TRADE AND OTHER PAYABLES

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

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

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

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

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

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

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

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

## INDUSTRY AND BUSINESS REVIEW

### Optical Networking Business

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

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

### Automation and Sensing Business

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

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

**Industrial Applications Business**

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

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

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

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

## FINANCIAL REVIEW

### Revenue

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

*Optical Networking Business*

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

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

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

*Automation and Sensing Business*

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

*Industrial Applications Business*

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

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

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

## GROSS PROFIT AND GROSS PROFIT MARGIN

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

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

## OTHER GAINS

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

## SELLING AND MARKETING COSTS

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

Apart from salary of HKD2.1 million incurred by the ITF, salary for FY2015 was HKD13.6 million which represents an increase of HKD3.7 million, or 37.4% compared with HKD9.9 million for FY2014. This increase was primarily attributable to the combined effect of (i) bolstering our efforts in hiring additional staff for the sales team to seek for new business opportunities in automation and sensing business; and (ii) an increment in salaries.

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

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

## RESEARCH AND DEVELOPMENT EXPENSES

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

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

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

## ADMINISTRATIVE EXPENSES

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

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

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

## FINANCE INCOME

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

## FINANCE EXPENSE

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

## SHARE OF RESULT OF AN ASSOCIATE

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

## SHARE OF RESULT OF A JOINT VENTURE

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

## PROFIT BEFORE TAX AND PROFIT BEFORE TAX MARGIN

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

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

## INCOME TAX EXPENSES

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

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

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

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

## PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY AND NET PROFIT MARGIN

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

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

## FUTURE PROSPECTS

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

### Optical Networking Business

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

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

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

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

**Automation and Sensing Business**

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

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

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

**Industrial Applications Business**

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

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

**GROUP'S LIABILITY FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

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

As at 31 December 2015, the Group had cash and cash equivalents of approximately HKD133.9 million (31 December 2014: HKD69.5 million). The significant increase was due to borrowing raised and increase in trade and other payables. The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

**PLEDGE ON GROUP ASSETS**

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

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

For 2015, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 31 December 2015, the Group had contractual capital commitments of approximately HKD14.5 million (31 December 2014: HKD47.4 million). As of 31 December 2015, the Group had not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

## CAPITAL EXPENDITURE

For 2015, the Group's capital expenditure on property, plant and equipment consisted primarily of additions to building, plant and machinery, office equipment and construction in progress of approximately HKD161.6 million (31 December 2014: HKD135.6 million).

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

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

Given that the management is in the opinion that the foreign exchange and conversion risks are not significant, the Group currently does not have a foreign currency hedging policy. However, the management monitors exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The reporting currency of the Group is Hong Kong dollar, as the Directors consider that such presentation is more appropriate for a company to be listed in Hong Kong and for the convenience of the shareholders. The Group maintained certain cash denominated in Hong Kong dollars for paying dividends, if declared.

## EMPLOYEE BENEFIT

As at 31 December 2015, the Group had a total of 2,878 employees (31 December 2014: 2,198). The Group's staff costs (including Directors' fees) amounted to HKD314.9 million (31 December 2014: HKD229.2 million). The remuneration policy of the Group is reviewed annually by the Remuneration Committee of the Company and is in line with the prevailing market practice.

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

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

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

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

The Post-IPO Share Option Scheme was adopted on 9 April 2010 to retain staff members who have made contributions to the success of the Group. For 2015, no option was granted (31 December 2014: options in aggregate of 1,870,000 were granted to 18 employees of the Group and one independent non-executive Director).

The Company adopted a restricted share award scheme ("Award Scheme") on 9 May 2014 as an incentive to recognize the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. Restricted shares under the Award Scheme will be comprised of shares of the Company subscribed for or purchased by the trustee out of cash arranged by the Company. In 2015, 10,119,000 restricted shares were purchased by the trustee from the market and 26,000,000 new shares were issued for the purpose of the Award Scheme.

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

## CHANGE OF COMPANY NAME

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

## FINAL DIVIDEND

The Board does not recommend any final dividend for FY2015 at the upcoming Annual General Meeting of the Company.

## CLOSURE OF REGISTER OF MEMBERS

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

## SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION

For 2015, the Group acquired the entire issued share capital of ITF and the shareholder loan with a cash consideration of USD5,000,000.

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

As at 31 December 2015, the Group maintained sufficient funds for the capital investment and operations for the coming year.

## MATERIAL EVENT SINCE THE END OF THE FINANCIAL YEAR

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

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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

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

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

## 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 Rules Governing the Listing of Securities on SEHK (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2015.

## 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 Listing Rules as its own code of corporate governance.

During the year ended 31 December 2015, the Company was in compliance with all the relevant code provisions set out in the CG Code except for the deviation as explained below.

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

Save as those mentioned above, in the opinion of the Directors, the Company has met all the relevant code provisions set out in the CG Code during the year ended 31 December 2015.

## AUDITORS' PROCEDURES PERFORMED ON THIS RESULT ANNOUNCEMENT

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2015 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## 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 internal control system of the Group. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2015 before they are tabled for the Board's review and approval and are of the opinion that such report complied with the applicable accounting standards, the Listing Rules, other applicable legal requirements and that adequate disclosures have been made.

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

Hong Kong, 30 March 2016

*As at the date of this announcement, the executive Director is Mr. Na Qinglin, the non-executive Directors are Mr. Tam Man Chi, Mr. Chen Zhujiang and Mr. Huang Bin, and the independent non-executive Directors are Mr. Deng Xinping, Mr. Ong Chor Wei and Mr. Zhao Wei.*