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 2017

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 2017. These results have been reviewed by the Company's audit committee (the "Audit Committee").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

		Year ended 31 December	
		2017	2016
	Note(s)	***HKD'000***	*HKD'000*
Revenue	*3*	**2,035,085**	1,598,319
Cost of sales	*5*	**(1,308,612)**	(1,028,634)
Gross profit		**726,473**	569,685
Other gains — net	*4*	**30,420**	21,248
Selling and marketing costs	*5*	**(76,152)**	(63,408)
Research and development expenses	*5*	**(230,820)**	(187,812)
Administrative expenses	*5*	**(177,126)**	(177,501)
Operating profit		**272,795**	162,212
Finance income		**2,113**	9,160
Finance expenses		**(25,963)**	(15,556)
Finance expenses — net		**(23,850)**	(6,396)
Share of losses of investments accounted for using equity method		**(3)**	(1,450)
Profit before income tax		**248,942**	154,366
Income tax expenses	*6*	**(43,110)**	(25,561)
Profit for the year		**205,832**	128,805
Profit attributable to:			
Owners of the Company		**208,867**	130,603
Non-controlling interests		**(3,035)**	(1,798)
		205,832	128,805
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
Basic	*7*	**0.28**	0.18
Diluted	*7*	**0.27**	0.18
Dividend	*8*	**–**	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Year ended 31 December	
	2017	2016
	HKD'000	*HKD'000*
Profit for the year	**205,832**	128,805
Other comprehensive income		
Items that may be reclassified to profit or loss		
Transfer of reserves to income statement upon disposal of investments accounted for using equity method	**–**	86
Transfer of reserves to income statement upon disposal of a subsidiary	**(2)**	–
Currency translation differences	**104,164**	(73,887)
Other comprehensive income/(loss) for the year	**104,162**	(73,801)
Total comprehensive income for the year	**309,994**	55,004
Attributable to:		
— Owners of the Company	**312,721**	56,015
— Non-controlling interests	**(2,727)**	(1,011)
Total comprehensive income for the year	**309,994**	55,004

CONSOLIDATED BALANCE SHEET

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

		Year ended 31 December	
		2017	2016
	Note(s)	***HKD'000***	*HKD'000*
ASSETS			
Non-current assets			
Land use right		**24,865**	23,826
Property, plant and equipment		**916,020**	701,835
Intangible assets		**82,648**	88,104
Investments accounted for using equity method		**2,497**	–
Deferred income tax assets		**2,050**	12,405
Available-for-sale financial assets		**12,272**	15,290
Derivative financial instruments		**97**	97
Other non-current receivables	*9*	**73,213**	26,139
Other non-current assets		**209,247**	131,744
		1,322,909	999,440
Current assets			
Inventories		**377,471**	269,779
Trade and other receivables	*9*	**975,048**	647,234
Other current assets		**1,552**	18,077
Financial assets at fair value through profit or loss		**18,816**	18,394
Pledged bank deposits		**84,851**	354,369
Term deposits with initial term of over three months		**2,492**	10,026
Cash and cash equivalents		**320,749**	169,312
		1,780,979	1,487,191
Total assets		**3,103,888**	2,486,631

	Note(s)	Year ended 31 December **2017** ***HKD'000***	 2016 *HKD'000*
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**7,985**	7,414
Share premium		**1,100,025**	825,501
Treasury shares		**(74,927)**	(74,927)
Other reserves		**120,442**	(6,133)
Retained earnings		**877,986**	669,119
		2,031,511	1,420,974
Non-controlling interests		**1,584**	7,729
Total equity		**2,033,095**	1,428,703
LIABILITIES			
Non-current liabilities			
Borrowings		**–**	29,082
Deferred tax liabilities		**2,498**	3,186
Deferred government grants		**15,107**	30,484
		17,605	62,752
Current liabilities			
Trade and other payables	*10*	**366,769**	290,111
Current income tax liabilities		**32,752**	20,767
Borrowings		**653,667**	684,298
		1,053,188	995,176
Total liabilities		**1,070,793**	1,057,928
Total equity and liabilities		**3,103,888**	2,486,631

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

General Information

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

The Company and its subsidiaries (the "Group") are principally engaged in the design, manufacturing and sale of optical networking subcomponents, components, modules, and subsystem used in high-speed telecommunications and data communications. In 2017, the Group established one new subsidiary.

These consolidated financial statements are presented in Hong Kong dollars ("HKD"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 20 March 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

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

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

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

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

- Recognition of Deferred Tax Assets for Unrealised Losses — Amendments to HKAS 12, and

- Disclosure initiative — amendments to HKAS 7.

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

(b) New standards and interpretations not yet adopted

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

HKFRS 9 Financial Instruments

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

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

The financial assets held by the Group include:

- equity instruments currently classified as Available-for-sale (AFS) for which a fair value through other comprehensive income (FVOCI) election is available, and

- equity investments currently measured at fair value through profit or loss (FVPL) which will continue to be measured on the same basis under HKFRS 9.

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

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

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect significant increase or decrease in the loss allowance for the trade debtors.

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

Date of adoption by the Group

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

HKFRS 15 Revenue from Contracts with Customers

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

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

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

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

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

Date of adoption by the Group

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

HKFRS 16 Leases

Nature of change

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

The accounting for lessors will not significantly change.

Impact

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

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

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

3. SEGMENT INFORMATION

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

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

All of the reported revenues from sales of goods were made to external customers for the year ended 31 December 2017 (2016: same).

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

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

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

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

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

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

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

4. OTHER GAINS — NET

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

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

5. EXPENSES BY NATURE

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

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

6. INCOME TAX EXPENSES

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

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

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

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

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

(e) O-Net Shenzhen applied to the relevant authorities in the PRC and has successfully been granted the qualification as a High and New Technology Enterprise in the PRC. It is entitled to a concessionary enterprise income tax rate of 15% for a period of 3 years from 2017 to 2019. The applicable tax rate for O-net Auto SZ is 25%.

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

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

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.

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

(b) Diluted

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

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

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

8. DIVIDENDS

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

9. TRADE AND OTHER RECEIVABLES

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

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

At 31 December 2017, the fair value of trade and other receivables of the Group approximated their carrying amounts (2016: same).

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

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

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

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

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

At 31 December 2017, trade receivables of HKD194,242,000 (2016: HKD105,627,000) were past due but not impaired. They relate to a number of independent customers that have good reputation and good trading and settlement history maintained with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances since there have not been any significant changes in their credit quality and the balances are considered fully recoverable.

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

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

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

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

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

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

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

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

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

(d) Other non-current receivables

Included in the other receivable is a balance due from Integrated Photonics, Inc. ("IPI"), a third-party supplier of the Group amounting to HKD28,005,000 (2016: HKD26,139,000), pursuant to an agreement signed between O-net Shenzhen, a subsidiary of the Company, and IPI in 2014. Under the agreement, O-net Shenzhen will ensure stable supply of goods by IPI from 2014 to 2019. In return, O-Net Shenzhen paid USD3,434,000 (equivalent to HKD29,640,000) to purchase 2,600 troy ounces of platinum ("Platinum") and deliver the Platinum to IPI for production capacity expansion purpose. IPI will keep the Platinum insured against loss or damage at all times during the term until IPI has repaid the full amount of the cost of Platinum to O-Net Shenzhen after 5 years. As security for such receivable, O-Net Shenzhen was granted a first priority lien by IPI over the Platinum.

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

10. TRADE AND OTHER PAYABLES

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

* As at the date of this announcement, the acquisition of 3SP has not yet been completed.

INDUSTRY AND BUSINESS REVIEW

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

Optical Networking Business

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

Telecommunications Business

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

Data-communications Business

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

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

Industrial Applications Businesses

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

Machine Vision Business

The "Made in China 2025" initiative ushered in by the Chinese Government in 2015, which is its own iteration of Industry 4.0, has brought immense opportunities to the automation and sensing sectors in China. Among the products that are forecast to achieve significant sales growth include machine vision systems which generated global sector sales of USD540 million in 2015 and are projected to achieve a CAGR of 18% from 2015 to 2020.

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

Automation Solutions Business for E-cigarette

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

Industrial Laser Business

For 2017, the global industrial laser market recorded growth of 26% to USD4.3 billion with industrial fiber lasers leading the way recording a growth of 34% to USD2.0 billion. Since 2015, the Group has successfully tapped the industrial laser industry through the acquisition of ITF, a leading supplier of ultra-reliable fiber-optic components, such as Fiber Bragg Grating (FBG) and high-power fused components and modules for fiber laser systems, which has addressed several applications for industrial fiber lasers across the different power and wavelength spectrums, including macro/micro material processing, marking and engraving, and welding applications since 2006. Capitalizing on ITF's innovations and the synergies after the acquisition, the Group was able to significantly outpace the market to record a growth rate of 67.3% and generated revenue of HKD123.5 million in FY2017.

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

LiDAR Business

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

Consumer Electronics Business

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

FINANCIAL REVIEW

Revenue

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

Optical Networking Business

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

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

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

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

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

Industrial Applications Businesses

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

Machine Vision Business

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

Automation Solutions Business for E-cigarette

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

Industrial Laser Business

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

LiDAR Business

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

Consumer Electronics Business

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

Gross Profit and Gross Profit Margin

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

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

Other Gains

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

Selling and Marketing Costs

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

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

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

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

Research and Development Expenses

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

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

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

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

Administrative Expenses

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

Finance Income/Expenses

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

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

Share of Result of a Joint Venture

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

Profit Before Tax and Profit Before Tax Margin

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

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

Income Tax Expenses

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

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

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

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

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

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

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

NON-GAAP FINANCIAL PERFORMANCE

Non-GAAP Profit Analysis

Reconciliation of Non-GAAP Financial Measures

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

	Year ended 31 December	
	2017	2016
	HKD'000	*HKD'000*
Adjustment to Measure Non-GAAP Gross Profit		
Gross Profit	**726,473**	569,685
Adjustment Related to Cost of Sales		
(Write-back)/provision for inventory write-down	**(323)**	11,796
Non-GAAP Gross Profit	**726,150**	581,481
Adjustment to Measure Non-GAAP Net Profit*		
Net Profit*	**208,867**	130,603
Adjustment Related to Cost of Sales		
(Write-back)/provision for inventory write-down	**(323)**	11,796
Adjustments to Measure to Operating expenses		
Share options and share awards granted to directors and employees	**22,721**	17,082
Amortization of intangible assets	**13,835**	5,539
Adjustments to Other Gains — net		
Fair value gain on derivative financial instruments	**(422)**	–
Loss on disposal of a subsidiary	**59**	–
Gain on disposal of investments accounted for using equity method	**–**	(4,205)
Loss on disposal of call option in equity investment	**–**	1,225
Non-GAAP Net Profit*	**244,737**	162,040
Non-GAAP EPS		
— Basic	**0.33**	0.23
— Diluted	**0.31**	0.22
Gross Profit Margin	**35.7%**	35.6%
Non-GAAP Gross Profit Margin	**35.7%**	36.4%
Net Profit* Margin	**10.3%**	8.2%
Non-GAAP Net Profit* Margin	**12.0%**	10.1%

* Profit attributable to Equity Holders of the Company

Non-GAAP net profit for FY2017 was HKD244.7 million, or HKD0.33 per share, compared with non-GAAP net profit of HKD162.0 million, or HKD0.23 per share, reported for FY2016. Non-GAAP results for FY2017 exclude HKD0.3 million in write-back for inventory write-down, HKD22.7 million in share options and share awards granted to directors and employees, HKD13.8 million in amortization of intangible assets, HKD0.4 million in fair value gain on derivative financial instruments and HKD0.06 million in loss on disposal of a subsidiary. Non-GAAP results for FY2016 exclude HKD11.8 million in provision for inventory write-down, HKD17.1 million in share options and share awards granted to directors and employees, HKD5.5 million in amortization of intangible assets, HKD4.2 million in gain on disposal of investments accounted for using equity method and HKD1.2 million in loss on disposal of call option in equity investment.

PROSPECTS

Going forward, the Group is confident that it will make further advances in all of its businesses. In respect of the optical networking business, it will introduce the next generation of innovate products to seize opportunities from the fast evolving optical components market, particularly the cloud data center and 5G mobile market. As for the new businesses, the Group envisages its various sectors will steadily grow to become significant businesses, driven by the advent of its core technologies. The Group is more optimistic about developments on the machine vision systems, fiber laser systems and LiDAR fronts as each of these businesses will serve as catalysts for its progress and growth.

Optical Networking Business

Underpinned by innovation, the optical networking business was able to seize yet a greater market shares during the past year. Going forward, the Group remains highly optimistic that this business achieve make even greater inroads in a market projected to expand at a compound annual growth rate of 7% between 2016 and 2022. The telecommunications market is expected to advance further due to ongoing double-digit traffic volume growth which will drive development of network infrastructure spanning both long haul and metro networks as well as fixed access and mobile networks. On the other hand, the upslope demand for web-scale data centers and data center upgrades to complement the introduction of 100GbE are expected to be the catalysts of growth in the data-communications market.

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

Industrial Applications Businesses

The revolution that is taking place in the manufacturing and production industry brought upon by Industry 4.0 and the "Made in China 2025" initiatives is set to have a significant and positive impact on the automation and digitalization industries in the coming years and beyond. Furthermore, while China's automaton industry is projected to be valued at approximately USD100 billion in 2020 according to an estimate, a large number of local Chinese enterprises continue to operate facilities from past industrial stages, hence the window of opportunity is immense. The Group therefore look to build on the successes by providing automation solutions, as well as offering machine vision systems and sensing products. The development of such products has begun in 2013, with products begin launched from 2015, and continuing to expand through new series of products to tap the opportunities generated by the trend towards Industry 4.0 in order to further penetrating to the intelligent, digital and networked manufacturing market.

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

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

Consumer Electronics Business

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

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

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

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

PLEDGE ON GROUP ASSETS

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

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

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

CAPITAL EXPENDITURE

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

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

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

EMPLOYEE BENEFITS

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

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

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

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

FINAL DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, 1 June 2018 ("2018 AGM"), the register of members of the Company will be closed from Monday, 28 May 2018 to Friday, 1 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2018 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 25 May 2018.

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION

On 21 April 2017, O-Net Communications Holdings Limited ("O-Net Communications"), a wholly-owned subsidiary of the Company, entered into the formal sale and purchase agreement (the "Formal Agreement") with Advance Photonics Investments Limited ("API") in relation to the acquisition by O-Net Communications of the entire issued share capital of 3SP at a consideration of approximately US$19.9 million (the "Acquisition"). The completion of the Acquisition is conditional pursuant to the terms of the Formal Agreement. 3SP is principally engaged in research, development, manufacturing and supplying of innovative chips and laser products for telecommunications and data-communications as well as innovative high-end markets such as LiDAR for ADAS market.

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

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

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

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

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

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

MATERIAL EVENT SINCE THE END OF THE FINANCIAL YEAR

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2017.

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 2017.

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 2017, the Company was in compliance with all the relevant code provisions set out in the CG Code except for the deviation as explained below.

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

Save as the deviation mentioned above, in the opinion of the Directors, the Company has met all the relevant code provisions set out in the CG Code during the year ended 31 December 2017.

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 2017 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 the risk management and internal control systems of the Group. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2017 before they are tabled for the Board's review and approval and are of the opinion that such report complied with the applicable accounting standards, the Listing Rules, other applicable legal requirements and that adequate disclosures have been made.

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

Hong Kong, 20 March 2018

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