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 2016

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 2016. These results have been reviewed by the Company's audit committee (the "Audit Committee").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS — BY FUNCTION OF EXPENSE

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

		Year ended 31 December	
		2016	2015
	Note(s)	***HKD'000***	*HKD'000*
Revenue	*3*	**1,598,319**	1,135,495
Cost of sales	*5*	**(1,028,634)**	(772,938)
Gross profit		**569,685**	362,557
Other gains — net	*4*	**21,248**	36,895
Selling and marketing costs	*5*	**(63,408)**	(49,450)
Research and development expenses	*5*	**(187,812)**	(135,080)
Administrative expenses	*5*	**(177,501)**	(134,024)
Operating profit		**162,212**	80,898
Finance income		**9,160**	9,448
Finance expenses		**(15,556)**	(5,676)
Finance (expenses)/income — net		**(6,396)**	3,772
Share of losses of investments accounted for using equity method		**(1,450)**	(2,592)
Profit before income tax		**154,366**	82,078
Income tax expenses	*6*	**(25,561)**	(2,829)
Profit for the year		**128,805**	79,249
Profit attributable to:			
Owners of the Company		**130,603**	82,535
Non-controlling interests		**(1,798)**	(3,286)
		128,805	79,249
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
Basic	*7*	**0.18**	0.12
Diluted	*7*	**0.18**	0.12
Dividend	*8*	**–**	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Year ended 31 December	
	2016	2015
	HKD'000	*HKD'000*
Profit for the year	**128,805**	79,249
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**	–
Share of other comprehensive loss of investment accounted for using equity method	**–**	(53)
Currency translation differences	**(73,887)**	(72,909)
Other comprehensive income for the year	**(73,801)**	(72,962)
Total comprehensive income for the year	**55,004**	6,287
Attributable to:		
— Owners of the Company	**56,015**	9,821
— Non-controlling interests	**(1,011)**	(3,534)
Total comprehensive income for the year	**55,004**	6,287

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

		As at 31 December	
		2016	2015
	Note(s)	***HKD'000***	*HKD'000*
ASSETS			
Non-current assets			
Land use right		**23,826**	26,067
Property, plant and equipment		**701,835**	698,576
Intangible assets		**88,104**	65,278
Investments accounted for using equity method		**–**	15,553
Deferred income tax assets		**12,405**	10,436
Available-for-sale financial assets		**15,290**	12,272
Derivative financial instruments		**97**	1,322
Other non-current receivables	*9*	**26,139**	27,908
Other non-current assets		**131,744**	1,295
		999,440	858,707
Current assets			
Inventories		**269,779**	227,538
Trade and other receivables	*9*	**647,234**	509,195
Other current assets		**18,077**	2,172
Financial assets at fair value through profit or loss		**18,394**	–
Pledged bank deposits		**354,369**	5,635
Term deposits with initial term of over three months		**10,026**	35,808
Cash and cash equivalents		**169,312**	133,910
		1,487,191	914,258
Total assets		**2,486,631**	1,772,965

	Note(s)	As at 31 December 2016 HKD'000	2015 HKD'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**7,414**	7,319
Share premium		**825,501**	807,830
Treasury shares		**(74,927)**	(74,927)
Other reserves		**(6,133)**	51,373
Retained earnings		**669,119**	538,516
		1,420,974	1,330,111
Non-controlling interests		**7,729**	4,718
Total equity		**1,428,703**	1,334,829
LIABILITIES			
Non-current liabilities			
Borrowings		**29,082**	–
Deferred tax liabilities		**3,186**	–
Deferred government grants		**30,484**	15,852
		62,752	15,852
Current liabilities			
Trade and other payables	*10*	**290,111**	340,897
Current income tax liabilities		**20,767**	3,141
Other current liabilities		**–**	3,817
Borrowings		**684,298**	74,429
		995,176	422,284
Total liabilities		**1,057,928**	438,136
Total equity and liabilities		**2,486,631**	1,772,965

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 2016, the Group established four new subsidiaries and acquired a business unit which are principally engaged in similar products as the Group as well as fibre optics components and fibre sensors.

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 14 March 2017.

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 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 following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- *Accounting for acquisitions of interests in joint operations — Amendments to HKFRS 11*
- *Clarification of acceptable methods of depreciation and amortisation — Amendments to HKAS 16 and HKAS 38*
- Annual improvements to HKFRSs 2012–2014 cycle, *and*
- *Disclosure initiative — amendments to HKAS 1.*

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

HKFRS 9, 'Financial instruments'

The new standard 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.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, financial instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The other financial assets held by the group include:

- equity investment currently classified as AFS for which a FVOCI election is available

- equity instruments currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under HKFRS 9, and

Accordingly, the group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

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. While the group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

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.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

HKFRS 15, 'Revenue from contracts with customers'

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. 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.

Management is currently assessing the effects of applying the new standard on the group's financial statements and has identified the following areas that are likely to be affected:

- revenue from service — the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.

- accounting for certain costs incurred in fulfilling a contract — certain costs which are currently expensed may need to be recognised as an asset under HKFRS 15, and

- rights of return HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the group does not intend to adopt the standard before its effective date.

HKFRS 16, 'Leases'

HKFRS 16 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.

The standard will affect primarily the accounting for group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of HK$27,704,000. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is 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.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the group.

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 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 2016 (2015: 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:

	2016	2015
	HKD'000	*HKD'000*
The PRC	**742,025**	534,761
Europe	**433,801**	345,254
North America	**242,614**	150,080
Other Asian countries excluding the PRC	**179,879**	105,400
	1,598,319	1,135,495

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 31 December 2016 and 2015 are as follows:

	2016	2015
	HKD'000	*HKD'000*
The PRC	**732,863**	724,706
Hong Kong	**116,384**	15,695
North America	**96,262**	66,368
	945,509	806,769

(c) Revenue of approximately HKD231,450,000 (2015: HKD169,623,000) and trade receivables of approximately HKD68,938,000 (2015: HKD51,695,000) are derived from one (2015: one) external customer, which are more than 10% of the Group's total revenue and total trade receivables.

During the year ended 31 December 2016, revenue of approximately HKD437,897,000 (2015: HKD318,793,000) was derived from three customers, which comprised 27% (2015: 28%) 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

	2016 HKD'000	2015 HKD'000
Government grants (a)	**13,274**	5,752
Rental income	**1,531**	2,455
Gain on sales of scrapped or surplus raw materials	**2,440**	1,426
(Loss)/gain on disposal of property, plant and equipment — net	**(595)**	24
Fair value loss/expiry of options	**–**	(1,656)
Gain on acquisition of a subsidiary	**–**	21,762
Loss on disposal of call option in equity investment	**(1,225)**	–
Gain on disposal of investments accounted for using equity method	**4,205**	–
Gain on re-measurement of previously held interests in an associate upon acquisition as a subsidiary	**–**	8,997
Others	**1,618**	(1,865)
	21,248	36,895

(a) Included in the government grant are amortization of deferred government grant of HKD2,905,000 (2015: HKD3,362,000), 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 analyzed as follows:

	2016 HKD'000	2015 HKD'000
Staff costs — excluding share options granted to directors and employees	**414,687**	314,887
Share options and share award granted to directors and employees	**17,082**	12,090
Raw materials consumed	**814,376**	531,606
Changes in inventories of finished goods and work in progress	**(8,241)**	42,807
Depreciation	**56,121**	54,793
Amortization	**5,539**	5,077
Provision of trade receivable impairment	**49**	990
Provision for inventory write-down	**11,796**	895
Impairment loss on development expenditure	**4,378**	–
Sales commissions	**17,486**	17,310
Utilities charges	**36,701**	37,068
Operating lease rental	**5,078**	3,771
Freight charges	**24,314**	8,155
Auditors' remuneration	**4,035**	2,702
Professional and consultancy fees	**17,795**	17,817
Travelling expenses	**6,704**	7,134
Advertising costs	**1,813**	1,191
Other tax levies	**11,991**	22,680
Others	**15,651**	10,519
	1,457,355	1,091,492

6. INCOME TAX EXPENSES

	2016 **HKD'000**	2015 *HKD'000*
Current income tax		
— Hong Kong profits tax (b)	**–**	(580)
— USA profits tax (c)	**3,066**	–
— Canada profits tax (d)	**918**	(2,271)
— PRC enterprise income tax (e)	**22,436**	1,871
Overprovision in prior years	**–**	(2,399)
Total current income tax	**26,420**	(3,379)
Deferred income tax	**(859)**	6,208
Income tax expenses	**25,561**	2,829

(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 2014 to 2016. 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:

	2016 **HKD'000**	2015 *HKD'000*
Profit before income tax	**154,366**	82,078
Tax calculated at statutory tax rates applicable to entities comprising the Group	**35,757**	7,911
Tax effect of:		
Research and development costs eligible for additional deduction	**(11,238)**	(12,455)
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	**1,572**	7,541
Income not subject to tax	**(860)**	(622)
Expenses not deductible for tax purposes		
— Share option expenses	**3,632**	2,336
— Others	**1,329**	517
Overprovision in prior years	**–**	(2,399)
Income tax expenses	**25,561**	2,829

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.

	2016	2015
Profit attributable to equity holders of the Company *(HKD'000)*	**130,603**	82,535
Weighted average number of ordinary shares in issue *(thousands)*	**711,010**	686,825
Basic EPS *(HKD per share)*	**0.18**	0.12

(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.

	2016	2015
Profit attributable to equity holders of the Company *(HKD'000)*	**130,603**	82,535
Weighted average number of ordinary shares in issue *(thousands shares)*	**711,010**	686,825
Adjustments for share options and share award (thousands shares)	**25,674**	1,883
Weighted average number of ordinary shares for the calculation of diluted earnings per share *(thousands shares)*	**736,684**	688,708
Diluted EPS *(HKD per share)*	**0.18**	0.12

8. DIVIDENDS

The Board does not recommend any final dividend for year ended 31 December 2016 (2015: none).

9. TRADE AND OTHER RECEIVABLES

	2016	2015
	HKD'000	*HKD'000*
Trade receivables (a)	**461,778**	396,642
Less: provision for impairment of receivables (b)	**(1,106)**	(1,639)
Trade receivables — net	**460,672**	395,003
Amounts due from related parties (a)	**393**	7,897
Bills receivable (c)	**148,873**	75,711
Prepayments	**12,062**	15,630
Interest receivables	**1,675**	257
Other receivables (d)	**49,698**	42,605
	673,373	537,103
Less non-current portion: other receivables (d)	**(26,139)**	(27,908)
Current portion	**647,234**	509,195

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 2016, the fair value of trade and other receivables of the Group approximated their carrying amounts (2015: same).

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

	2016	2015
	HKD'000	*HKD'000*
RMB	**367,582**	410,862
USD	**291,801**	121,594
HKD	**7,578**	17
CAD	**6,157**	3,241
Others	**255**	1,389
	673,373	537,103

(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:

	2016	2015
	HKD'000	*HKD'000*
Within 30 days	**194,624**	155,626
31 to 60 days	**139,292**	94,918
61 to 90 days	**82,839**	90,386
91 to 180 days	**38,240**	41,432
181 to 365 days	**5,225**	13,649
Over 365 days	**1,653**	4,037
	461,873	400,048

At 31 December 2016, trade receivables of HKD105,627,000 (2015: HKD82,400,000) 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:

	2016	2015
	HKD'000	*HKD'000*
Past due 1 to 90 days	**94,119**	64,720
Past due 91 to 180 days	**5,928**	5,042
Past due 181 to 365 days	**4,038**	9,887
Past due over 365 days	**1,542**	2,751
	105,627	82,400

At 31 December 2016, trade receivables of HKD1,106,000 (2015: HKD1,639,000) 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:

	2016	2015
	HKD'000	*HKD'000*
Past due over 365 days	**1,106**	1,639

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

	2016	2015
	HKD'000	*HKD'000*
At 1 January	**1,639**	727
Provision of impairment	**49**	990
Write-off	**(486)**	–
Translation difference	**(96)**	(78)
At 31 December	**1,106**	1,639

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

	2016	2015
	HKD'000	*HKD'000*
Within 30 days	**21,269**	20,546
31 to 90 days	**42,620**	23,007
91 to 180 days	**79,206**	32,158
181 days to 365 days	**5,778**	–
	148,873	75,711

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 HKD26,139,000 (2015: HKD27,908,000), 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

	2016	2015
	HKD'000	*HKD'000*
Trade payables (a)	**198,110**	182,594
Bills payable (c)	**–**	95,488
Accrued expenses	**24,650**	13,977
Payroll payables	**44,315**	27,216
Other payables	**15,592**	7,267
Amounts due to related parties	**–**	1,052
Advance from customers	**3,663**	3,042
Other taxes payable	**3,781**	10,261
	290,111	340,897

At 31 December 2016, the fair value of trade and other payables of the Group approximated their carrying amounts due to their short maturities (2015: same).

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

	2016	2015
	HKD'000	*HKD'000*
Within 30 days	**117,992**	95,664
31 days to 60 days	**42,657**	52,799
61 days to 180 days	**29,035**	27,388
181 days to 365 days	**2,734**	2,311
Over 365 days	**5,692**	4,432
	198,110	182,594

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

	2016	2015
	HKD'000	*HKD'000*
RMB	**189,058**	248,648
USD	**83,525**	76,281
CAD	**10,304**	9,476
HKD	**7,133**	5,358
Others	**91**	1,134
	290,111	340,897

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

	2016	2015
	HKD'000	*HKD'000*
181 to 365 days	**–**	95,488

At 31 December 2016, the Group has no bills payables (2015: secured by pledged bank deposits of HKD4,965,000 and bills receivables of HKD42,959,000).

MANAGEMENT DISCUSSION AND ANALYSIS

During the past financial year, the Group has continued to bolster its position as a leader in the provision of high-technology products and solutions, thus further expanded from its origin as supplier of passive optical networking products. In addition to launching high-speed optical transceivers for addressing the needs of both intra- and inter-datacenter connections, it has also made significant strides in other fast-growth emerging segments such as laser chips for pump lasers and high-speed optical transceivers, as well as laser chip and optical components for Light Detection And Ranging ("LiDAR") technologies.

The "Diversity for Growth" strategy rolled out by the management back in 2012 has been the catalyst for growth of various new businesses. This strategy has led to (i) the introduction of automation solutions for E-cigarette industry; (ii) the launch of the first machine vision solution and fiber sensor in the second half of 2015; (iii) the offering of advanced industrial laser products by ITF Technologies, a subsidiary of the Group; and (iv) the rollout of an innovative coating technology to the smartphone segment of the consumer electronics industry. All of these products and services have performed exceptionally well in the past year, hence laying the groundwork for further penetration into the Industry 4.0 market.

Apart from the optical networking market for telecommunications applications, the Group's traditional core business, the Group will continue to direct focus on other segments, including: (i) cloud data center infrastructure; (ii) numerous automation related businesses to capture Industry 4.0 and robotics opportunities; (iii) fiber lasers; (iv) LiDAR for emerging Advanced Driver Assistance Systems ("ADAS") applications; and (v) coating and new materials using for consumer electronics market. Consistent with this focus, and its overall goal to further distance itself as leader in the global technology industry, it will continue to seek for opportunities for acquisitions to generate synergies with core and new businesses. Already, the Group is in the process of acquiring 3SP Technologies, a specialist in Indium Phosphide ("InP") and Gallium Arsenide ("GaAs") based laser chips, which would complement its products for the optical telecommunications and data-communications markets, as well as emerging markets such as ADAS.

INDUSTRY AND BUSINESS REVIEW

Optical Networking Business

In 2016, the Group's optical components business has duly seized opportunities resulting from both the telecommunications and data-communications segments, and generated revenue of HKD1,397.5 million, up 43.4% year-on-year. It's thereby far outstripping the pace of expected global optical market growth of 23%, which is the result of business expansion in both the telecommunications and data-communications markets.

Telecommunications Business

The global optical components market for telecommunications application has experienced steady growth over the past year which was driven by the strong demand for 100GbE and 200GbE coherent transmission products to support rising bandwidth demand for mobile and access networks. Riding on the impressive advancement in both overseas and domestic markets, the Group's telecommunications business recorded a favourable year-on-year growth of 36.6% and generated HKD1,307.4 million in revenue, remained the principal revenue contributor and accounted for 93.6% of the segment and 81.8% 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 uprating of data centers by global web-scale operators from 40GbE to 100GbE due to demand for higher speed cloud services, and thus data-communications market is expected to achieve impressive growth too, with compound annual growth rates ("CAGR") of 19% from 2015 to 2021, and reaching USD6.1 billion in value by the end of 2021.

Though the Group's data-communications business accounted for 6.5% of optical networking business revenue at HKD90.1 million — representing 5.7% of the Group's total revenue — it nonetheless outpaced the telecommunications business in terms of revenue growth. In 2015, the data-communications business generated revenue of HKD17.7 million, hence a phenomenal year-on-year increase of 409.0% has been achieved within 12 months.

Automation and Sensing Businesses

The Group's advanced technological platforms enable it to deliver products and services to customers from different industries, including members engaged in (i) the machine vision business; (ii) the automation solutions for E-cigarette business; (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 market in China. Among the products that are forecasted to achieve significant sales growth include the machine vision system and fiber optic sensor which generated sales of USD540 million and USD129 million in 2015 and are projected to achieve a CAGR of 18% and 20% from 2015 to 2020 respectively.

In FY2015, the Group rolled out its first machine vision system and fiber sensor, and in the past year has continued to invest and expand product portfolios to cater for strong demand. Consequently, the machine vision system and fiber sensor segment achieved impressive growth of 515.4% year-on-year, contributing HKD16.0 million in revenue to the automation and sensing business in FY2016, thus reaffirming its growth driver status.

Automation solutions for E-cigarette business

During the year, the Group continued to provide various automation solutions for the E-cigarette manufacturing industry and have become a leading supplier of the E-cigarette industry by supplying heating coils and automated E-liquid Filling & Assembly Machines.

Capitalizing on the Group's longstanding relationships with several major E-cigarette makers in China, its E-cigarette business grew slightly better than E-cigarette market and recorded revenue of HKD46.9 million for the year.

Industrial laser business

Laser technology has been deployed for industrial applications since the invention of the first lasers back in the 1960's. Since 2006, ITF Technologies has been involved in several applications for industrial fiber lasers that cover different power and wavelength spectrums, including macro/micro material processing, and marking and engraving, as well as sensor applications such as LiDAR for telemetry applications. While the global manufacturing outlook for 2017 is improving, the industrial laser industry is expected to maintain a growth rate of approximately 6%. This uptick will continue to be led by fiber laser sales, which are expected to grow by 9.1% annually and will account for a greater share of the industrial laser applications market. Fiber laser sales growth will be driven by (i) power efficiency; (ii) cost competitiveness; (iii) ease of maintenance; and (iv) relative durability.

In view of fiber laser's significance, the Group has successfully tapped into the industrial lasers industry through the acquisition of ITF Technologies and has become 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.

In 2016, ITF Technologies expanded its offerings to multi-kilowatt fiber lasers and LiDAR applications. As a result, the Group has benefited from growing revenue sources, as reflected by total revenue of HKD74.5 million for the industrial laser business in FY2016. The result represents a growth rate of 22.9% over the preceding year, and also outperforms the market's growth rate of 6% for 2016.

LiDAR business

The Group is also a pioneer in LiDAR, which is among the key solutions for making high-resolution images or maps used by Advanced Driving Assistance Systems ("ADAS"). By 2020, the LiDAR market will be valued at USD1 billion according to estimates, having achieved a CAGR of 16% from 2014 to 2020. This significant growth will be driven by the rise in automated and highly automated vehicles on the road in ten years' time. To capitalize on such growth, the Group has established a production line for the assembly of LiDAR, and its optical products for LiDAR, which have also been qualified by a global technology giant, commenced shipment and generated revenue in the second half of 2016. Furthermore, it is pursuing cooperative ties with other LiDAR players and securing additional customers. All of these efforts will help to further bolster the Group's position in this burgeoning segment.

Coating and New Materials Business

Based on market data from three major smartphone manufacturers in China, smartphone shipments to the country and globally rose by 14.2% and 5.9% respectively in 2016. Furthermore, according to projections by MediaTek Inc., overall smartphone shipments around the globe will increase by 5.4%, while emerging markets including China will reach as high as 14% to 16%. This underscores the enormous growth potential of the smartphone market, particularly in China, which is a major market of the Group's coating and new materials business. Capitalizing on the Group's cutting edge coating technology, it provided anti-reflective, anti-fingerprint and color limination coating services, and enjoyed strong demand from the smartphone market, as evidenced by significant revenue growth, rising from HKD13.1 million in the first half of 2016 to HKD50.3 million in second half year of 2016.

FINANCIAL REVIEW

Revenue

For FY2016, the Group reported revenue of HKD1,598.3 million, representing an increase of HKD462.8 million, or 40.8%, compared to that of HKD1,135.5 million in FY2015. The increase in revenue in FY2016 was primarily attributable to (i) the strong growth in the revenue of the optical networking business for the telecommunications and data communications markets; and (ii) the persistent expansion of the new businesses.

Optical Networking Business

Revenue of the optical networking business of HKD1,397.5 million was recorded in FY2016, representing an increase of 43.4% as compared to that of HKD974.7 million in FY2015. The increase in revenue in FY2016 was primarily attributable to (i) the demand of the passive optical networking products remaining at a high level; (ii) the launch of new products such as raman amplifiers, linecard, 100GbE tunable filer and variable optical attenuator ("VOA") during the year; (iii) gaining further market share and new customers in both overseas and domestic markets; and (iv) the new revenue sources generated by sales of active optical networking products for data communications market to US based customers.

The revenue of the optical networking business from the overseas market increased by 37.5% to HKD806.8 million for FY2016, representing 57.7% of its total optical networking revenue, which was attributable to the combined effect of (i) the demand of the passive optical networking products remaining at a high level due to the upgrading of 100GbE long haul networks; (ii) gaining further market share and new customers in overseas markets, particularly in United State of America ("USA") and Asia Pacific excluded China; and (iii) sales of active optical networking products for data-communications market to US based customers.

The revenue of optical networking business from the domestic market surged by 52.3% to HKD590.7 million for FY2016, representing 42.3% of its total optical networking revenue. The surge was attributable to the combined effect of (i) gaining further market share domestically; and (ii) the demand of the passive optical networking products remaining at a high level as a results of continuing in extension of mobile and fixed access networks as well as the metro and long haul networks require an upgrade to support the mobile and fixed access networks in China.

Automation and Sensing Businesses

Revenue of the automation and sensing businesses of HKD137.4 million was recorded in FY2016, representing an increase of 27.2% as compared to that of HKD108.0 million in FY2015, attributed to the steady growth of machine vision, automation solutions for E-cigarette and the industrial laser business.

Machine vision business

The Group entered into the machine vision industry by the introduction of a machine vision system and a fiber sensor in China which generated HKD16.0 million in revenue, representing an increase of 515.4% as compared to that of HKD2.6 million in FY2015.

Automation solutions for E-cigarette business

Revenue of HKD46.9 million was recorded for FY2016, representing an increase of 12.5% as compared to that of HKD41.7 million for FY2015. The increase in revenue for FY2016 was primarily attributable to the steady growth in demand of both heating coils and cartomizers as the Group had established a healthy supply relationships with several major E-cigarette makers in China.

Industrial laser business

The Group's industrial laser business was solely contributed by the ITF by supplying optical components to the fiber lasers products for material processing applications in industrial countries, especially China. In FY2016, revenue from the industrial laser business of HKD74.5 million was recorded, representing an increase of 22.9% as compared to that of HKD60.6 million for FY2015. The increase was primarily due to increasing demands from customers in China.

Coating and New Materials Business

In FY2016, the Group had generated HKD63.4 million revenue from the coating business, representing an increase of 20.1% as compared to that of HKD52.8 million for FY2015. This was primarily because of increasing demand for coating on glass and ceramic materials for consumer electronics products such as smartphone in China.

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit for FY2016 was HKD569.7 million, representing an increase of HKD207.1 million, or 57.1%, from the gross profit of HKD362.6 million for FY2015. The increase of gross profit was primarily due to (i) the overall increase in revenue from the operation of the Group particularly from the revenue of optical networking business; and (ii) increase in gross profit margin.

Gross profit as a percentage of total revenue, or gross profit margin, increased to 35.6% for FY2016 as compared to 31.9% for FY2015. The gross profit margin of optical networking business increased to 33.1% for FY2016, as compared to 32.2% for FY2015 while the gross profit margin of automation and sensing businesses, increased significantly to 46.6% for FY2016, as compared to 42.9% for FY2015. This accounted for the overall improvement of Group gross profit margin.

OTHER GAINS

Other gains for FY2016 decreased by HKD15.7 million to HKD21.2 million, from HKD36.9 million for FY2015. This was primarily due to the net effect of (i) increase in recognition of government grant, from HKD5.8 million to HKD13.3 million in 2016; (ii) absence of the gain on acquisition of ITF of HKD21.8 million in 2015; and (iii) absence of the gain on re-measurement of previously held interests in an associate upon acquisition.

SELLING AND MARKETING COSTS

Selling and marketing costs of HKD63.4 million for FY2016 represents an increase of HKD13.9 million, or 28.1%, compared to HKD49.5 million for FY2015. The increase in selling and marketing costs for FY2016 was primarily attributable to (i) the increase of the salary costs and commissions; (ii) higher freight charges; and (iii) the increase in share options/share award expenses. However, selling and marketing costs as a percentage of revenue decreased to 4.0% for FY2016 as compared to 4.4% for FY2015. The reason was mainly attributable to the higher revenue outweighing the increase in the overall selling and marketing costs.

Salary cost and commission for FY2016 was HKD42.0 million which represents an increase of HKD11.1 million, or 35.9% compared with HKD30.9 million for FY2015. 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; (ii) an increment in salaries; and (iii) increase in commission due to the surge of sales in 2016.

Freight charges for FY2016 was HKD9.6 million which represents an increase of HKD3.0 million, or 45.5% compared with HKD6.6 million for FY2015. This increase rose in step with the rising sales in 2016.

Share options/share awards expenses for FY2016 was HKD1.8 million, representing an increase of HKD1.1 million, compared with HKD0.7 million for FY2015. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in 2016 and those granted in the second half of 2015, which didn't have a full year impact in 2015.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development ("R&D") expenses for FY2016 were HKD187.8 million, which was 39.0% higher compared to HKD135.1 million for FY2015. The rise in R&D expenses was mainly due to the combined effect of (i) the increase in salary cost for the R&D engineers; (ii) the increase in share options/share awards expense; and (iii) the increase in raw materials consumed in R&D projects. However, R&D expenses as a percentage of revenues slightly decreased to 11.7% for FY2016, as compared to 11.9% for FY2015. This was mainly due to the increase in revenue outweighing the increase in the overall R&D expenses.

For FY2016, the salary cost for the R&D engineers was HKD94.2 million, representing an increase of HKD24.1 million, or 34.4% as compared to HKD70.1 million for FY2015. 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 salaries.

Share options/share awards expenses for FY2016 was HKD6.5 million, representing an increase of HKD3.6 million, compared with HKD2.9 million for FY2015. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in 2016 and those granted in the second half of 2015, which didn't have a full year impact in 2015.

Raw materials consumed in the R&D projects in FY2016 was HKD60.0 million, representing an increase of HKD20.5 million, compared with HKD39.5 million for FY2015. The increase was primarily attributable to increasing investments in R&D projects, such as developing 100GbE mini ICR and 10 X 10 TOSA & ROSA.

ADMINISTRATIVE EXPENSES

Administrative expenses for FY2016 were HKD177.5 million, which was 32.5% higher, compared to HKD134.0 million for FY2015. The increase in administrative expenses for FY2016 was primarily attributable to (i) the increase in staff salary and staff welfare; (ii) the impairment loss of inventories and capitalized expenditure of development costs (to R&D) and (iii) increase in overall administrative expenses. However, administrative expenses as a percentage of revenues decreased to 11.1% for FY2016 as compared to 11.8% for FY2015. The decrease was mainly due to the increase in revenue outweighing the increase in administrative expenses.

For FY2016, the salary cost was HKD98.8 million, representing an increase of HKD14.6 million, or 17.3% as compared to HKD84.2 million for FY2015. The increase was primarily attributable to an increment in salaries.

The total impairment cost of inventories was HKD11.8 million for FY2016, representing an increase of HKD10.9 million, as compared to HKD0.9 million of FY2015. The Group assessed the future economic benefits of these assets and decided to make the impairment.

The other administrative expenses rose in line with growth of the Group such as office supplies, utilities, rent and legal & professional fees which increased by HKD9.2 million in total, represented an increase of 34.9%.

FINANCE INCOME

Finance income for FY2016 amounted to HKD9.2 million, representing a decrease of HKD0.2 million, compared to HKD9.4 million for FY2015. The decrease in finance income was primarily due to the net effect of (i) the decrease in foreign exchange gain by HKD2.8 million to HKD5.3 million as the depreciation of Renminbi Yuan ("RMB") for FY2016 while most of cash held by the Group was in RMB; and (ii) the increase in interest income by HKD2.5 million due to increasing pledged bank deposits and term deposits.

FINANCE EXPENSE

Finance expense for FY2016 amounted to HKD15.6 million. The increase in finance expense was primarily due to the increase in interest expenses due to increase in bank borrowings by HKD639.0 million during the year.

SHARE OF RESULT OF A JOINT VENTURE

Share of loss of a joint venture ("JV") was HKD1.5 million for FY2016, which represents a decrease of HKD0.6 million compared with HK2.1 million loss for FY2015. The decrease of the Group's share of loss of a JV was primarily attributable to the decrease in operating expense of the JV.

PROFIT BEFORE TAX AND PROFIT BEFORE TAX MARGIN

Profit before tax of HKD154.4 million was recorded for FY2016 while HKD82.1 million was recorded for FY2015. The increase in profit before tax for FY2016 was primarily due to an increase in revenue from the operation and improvement in overall gross profit margin of the Group.

Profit before tax as a percentage of total revenues, namely profit before tax margin, increased from 7.2% for FY2015 to 9.7% for FY2016. The increase in profit before tax margin was primarily due to (i) the increase in gross profit margin as described above; and (ii) the decrease in respective selling expenses, R&D expenses and administrative expenses as percentages of the Group's revenue.

INCOME TAX EXPENSES

Currently, apart from income tax expense of O-Net USA and ITF Technologies, income tax expenses of the Group mainly consist of PRC Enterprise Income Tax ("PRC EIT") and deferred taxation. Taxation arising in other jurisdictions is 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.

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 FY2016 amounted to HKD25.6 million represents an increase of HKD22.8 million or 814.3% from the income tax expense of HKD2.8 million for FY2015. The increase in income tax expenses was primarily due to the net effect of (i) increase in net profit before tax for FY2016; and (ii) provision of taxation for overseas subsidiaries due to recording taxable profit.

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

Profit attributable to equity holders of HKD130.6 million was recorded for FY2016, while HKD82.5 million was recorded for FY2015. The increase in profit attributable to equity holders was primarily due to increase in revenue from the operation and improvement in overall gross margin of the Group as disclosed above.

Profit attributable to equity holders as a percentage of total revenue, namely profit margin, increased from 7.3% for FY2015 to 8.2% for FY2016. The increase in profit margin was primarily due to (i) the increase in gross profit margin as described above; and (ii) the decrease in the respective selling expenses, R&D expenses and administrative expenses as percentages of the Group's revenue.

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 a 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	
	2016	2015
	HKD'000	*HKD'000*
Adjustment to Measure Non-GAAP Gross Profit		
Gross Profit	**569,685**	362,557
Adjustment Related to Cost of Sales		
Provision for inventory write-down	**11,796**	895
Non-GAAP Gross Profit	**581,481**	363,452
Adjustment to Measure Non-GAAP Net Profit*		
Net Profit*	**130,603**	82,535
Adjustment Related to Cost of Sales		
Provision for inventory write-down	**11,796**	895

* Profit attributable to Equity Holders of the Company

	Year ended 31 December	
	2016	2015
	HKD'000	*HKD'000*
Adjustments to Measure to Operating expenses		
Share Options and Share Awards Granted to Directors and Employees	**17,082**	12,090
Amortization of intangible assets	**5,539**	5,077
Adjustments to Other Gains — net		
Fair value Loss on Derivative Financial Instruments	**–**	1,656
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)
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*	**162,040**	71,494
Non-GAAP EPS		
— Basic	**0.23**	0.10
— Diluted	**0.22**	0.10
Gross Profit Margin	**35.6%**	31.9%
Non-GAAP Gross Profit Margin	**36.4%**	32.0%
Net Profit* Margin	**8.2%**	7.3%
Non-GAAP Net Profit* Margin	**10.1%**	6.3%

Non-GAAP net profit for FY2016 was HKD162.0 million, or HKD0.23 per share, compared to non-GAAP net profit of HKD71.5 million, or HKD0.10 per share, reported for FY2015. 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. Non-GAAP results for FY2015 exclude HKD0.9 million in provision for inventory write-down, HKD12.1 million in share options and share awards granted to directors and employees, HKD5.1 million in amortization of intangible assets and HKD1.7 million in fair value loss on derivative financial instruments, HKD21.8 million in gain on acquisition of a subsidiary and HKD9.0 million in gain on re-measurement of previously held interests in an associate upon acquisition as a subsidiary.

* Profit attributable to Equity Holders of the Company

PROSPECTS

Going forward, the Group is confident that it will make further inroads in all of its business activities. 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 market. As for the new businesses, the Group envisages its various segments will steadily grow to become significant businesses, driven by the advent of smart factories. The Group is no less optimistic about developments on the machine vision system, fiber laser, LiDAR and coating fronts as each of these businesses will serve as catalyst for the Group's advancement and growth.

Optical Networking Business

Underpinned by innovation, the optical networking business was able to seize still greater market shares in the past year. Going forward, the Group remains fully optimistic that this business will make even greater inroads in the market that is projected to expand at a compound annual growth rate of 12% between 2015 and 2021. The telecommunications market is expected to advance further due to ongoing double-digit traffic volume growth which will drive network infrastructure developments 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 since the second half of 2016 are expected to be the catalysts of the data-communications market.

With strong growth forecasted for the global telecommunications and data-communications markets, the Group has already taken measures to strengthen its position in both markets. In particular, given the high pace of growth of its data-communications business, the Group is well on its way to introduce new iterations of advanced products to the market. Furthermore, the 100GbE AOC and 10 X 10 TOSA & ROSA products, having already launched, qualified and commenced production in the second half of 2016, will proceed with mass shipments within 2017.

While the Group already possesses strong R&D and manufacturing capabilities, they will be further bolstered by the acquisition of 3SP Technologies in the first half of 2017. Besides generating synergies with the Group's research and manufacturing operations, the company holds unique expertise in the state-of-the-art production of InP and GaAs based laser chips which will directly benefit the Group's existing and future businesses.

Automation & Sensing 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" initiative will have a significant and positive impact on the automation and digitalization market in the coming decade and beyond. Furthermore, while China's automaton industry will be valued at approximately USD100 billion in 2020 according to an estimate, a large number of local Chinese enterprises remain in past industrial stages, hence the window of opportunity is immense. The Group will therefore look to build on the successes achieved by its automation and sensing businesses by providing automation solutions, as well as offering machine vision system and fiber sensor product. The development of such products began in 2013, launched in 2015, and will be further expanded by a new series of products for penetrating the intelligent, digital and networked manufacturing market in the coming years. The Group is confident that its automation and sensing products will be able to both seize opportunities from the aforementioned market, and from the Industry 4.0 market — placing the Group among the first automation solutions providers in Industry 4.0.

The Group's advanced technology platforms will continue to support its development in the fiber laser business. With the introduction of additional building blocks 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 and welding, as well as marking and engraving. The Group already has a number of fiber optic components in the pipeline that will support its ambitions in the fiber laser business.

ADAS is believed to be one of the most significant technologies to affect the evolution of the automobile. The Group is committed to developing LiDAR — a key solution used by ADAS — in order to lead the industry in revenue derived from LiDAR for autonomous vehicles. Already one of the key components suppliers of the technology, the Group is optimistic about its future demand, and to expedite adoption, the Group has embarked on development of the next generation of LiDAR that would be at a lower price point. This would make ADAS a more cost effective proposition to members of the automotive industry. The Group is confident that this business segment will serve as an additional revenue stream that can drive the Group's overall revenue growth in the future.

Coating and New Materials Business

As for coating business, which enjoy high gross margin and continue to gain growth momentum, the Group will seek to encourage business development by establishing O-Net Coating and Materials Technology Limited as a focus subsidiary. Building on the strong demand for quality and high-end coating technologies to ceramic fingerprint sensor and ceramic casing for fingerprint resistant as well as color lamination for glass casing from smartphone manufacturers, the Group is striving to secure more new customers, including from the consumer electronics industries by leveraging the Group's expertise in coatings.

While the Group has made significant progress in all of its business activities, 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 2016, the Company's issued share capital was approximately HKD7.4 million divided into 741,386,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,428.7 million (31 December 2015: HKD1,334.8 million). The Group had current assets of HKD1,487.2 million and current liabilities of HKD995.2 million and the current ratio was 1.5 times as at 31 December 2016 (31 December 2015: 2.2 times). The Group's gearing ratio (calculated as total borrowings over total equity) was 49.9% at 31 December 2016 (31 December 2015: 5.6%).

As at 31 December 2016, the Group had cash and cash equivalents of approximately HKD169.3 million (31 December 2015: HKD133.9 million). The significant increase was due to borrowings raised. 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, 2016, the Group had bank deposit of HKD354.4 million pledged to secure the bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

For 2016, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 31 December 2016, the Group had contractual capital commitments of approximately HKD8.3 million (31 December 2015: HKD14.5 million). As of 31 December 2016, 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 2016, 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 HKD101.9 million (31 December 2015: HKD161.6 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 BENEFITS

As at 31 December 2016, the Group had a total of 3,680 employees (31 December 2015: 2,878). The Group's staff costs (including Directors' fees) amounted to HKD414.7 million (31 December 2015: HKD314.9 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 2016 and 2015, no option was granted.

The Company adopted a restricted share award scheme ("Share Award Scheme") on 9 May 2014 as an incentive to recognize the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. Restricted shares under the Award Scheme will be comprised of shares of the Company subscribed for or purchased by the trustee out of cash arranged by the Company. No restricted shares were purchased by the trustee from the market and no new share was issued by the Company for the purpose of the Share Award Scheme for 2016. For 2016, 16,915,000 shares were granted to employees of the Group (2015: 25,045,000).

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

FINAL DIVIDEND

The Board does not recommend any final dividend for FY2016 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, 2 June 2017 ("2017 AGM"), the register of members of the Company will be closed from Friday, 26 May 2017 to Friday, 2 June 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2017 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 Thursday, 25 May 2017.

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION

On 24 October 2016, O-Net Communications Holdings Limited ("O-Net Communications"), a wholly-owned subsidiary of the Company, entered into a memorandum of understanding (the "MOU") with Advance Photonics Investments Limited (the "Vendor") in relation to the proposed acquisition by O-Net Communications of the entire issued share capital and shareholder's loan of 3SP technologies (the "Target Company") at a consideration of not more than USD20.5 million (the "Proposed Acquisition"). The Target Company 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 light detection and ranging product (the "LiDAR") for advanced driving assistance system (the "ADAS") market.

Pursuant to the MOU, O-Net Communications has been granted an exclusivity period of 180 days from the date of signing of the MOU to carry out due diligence investigation on the Target Company and to finalize the formal agreement to be entered into by O-Net Communications and the Vendor in relation to the Proposed Acquisition. O-Net Communications has paid a deposit of USD15 million pursuant to the terms of the MOU.

Details of the MOU and the Proposed Acquisition are set out in the announcement made by the Company dated 24 October 2016.

As at the date of this announcement, no formal agreement has been entered into as O-Net Communications is still awaiting the results of the aforesaid due diligence.

Save for the MOU, the Group did not have any other significant investment held, nor there were any material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2016.

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

As at 31 December 2016, 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 2016.

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 2016.

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 2016, the Company was in compliance with all the relevant code provisions set out in the CG Code except for the deviation as explained below.

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

Save as those mentioned above, in the opinion of the Directors, the Company has met all the relevant code provisions set out in the CG Code during the year ended 31 December 2016.

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 2016 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 2016 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, 14 March 2017

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.