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 THE YEAR ENDED 31 DECEMBER 2019

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 2019. These results have been reviewed by the Company's audit committee (the "Audit Committee").

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2019	2018
	Note	***HKD'000***	*HKD'000*
ASSETS			
Non-current assets			
Land use right		**–**	23,120
Right-of-use assets		**67,924**	–
Property, plant and equipment		**1,073,359**	957,831
Intangible assets		**247,147**	90,423
Investments accounted for using equity method		**47,501**	31,119
Deferred income tax assets		**1,296**	698
Financial assets at fair value through other comprehensive income		**15,185**	1,656
Derivative financial instruments		**–**	97
Other non-current receivables		**6,295**	126,832
Other non-current prepayments		**45,010**	157,154
		1,503,717	1,388,930
Current assets			
Inventories		**596,441**	501,025
Contract assets		**21,472**	27,180
Trade and other receivables	*4*	**876,588**	865,885
Other current assets		**3,498**	4,186
Financial assets at fair value through profit or loss		**–**	24,891
Pledged bank deposits		**10,718**	65,672
Cash and cash equivalents		**481,100**	341,591
		1,989,817	1,830,430
Total assets		**3,493,534**	3,219,360

	Note	As at 31 December 2019 HKD'000	2018 HKD'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**8,269**	8,020
Share premium		**1,113,552**	1,105,589
Treasury shares		**(29,753)**	(60,847)
Other reserves		**14,467**	56,918
Retained earnings		**1,242,006**	1,139,778
		2,348,541	2,249,458
Non-controlling interests		**(10,564)**	(1,994)
Total equity		**2,337,977**	2,247,464
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**17,917**	11,953
Lease liabilities		**37,511**	–
Post-employment benefit obligations		**10,267**	–
Deferred government grants		**13,083**	11,676
		78,778	23,629
Current liabilities			
Trade and other payables	*5*	**433,022**	428,750
Contract liabilities		**9,047**	9,997
Current income tax liabilities		**31,082**	21,750
Lease liabilities		**12,598**	–
Borrowings		**591,030**	487,770
		1,076,779	948,267
Total liabilities		**1,155,557**	971,896
Total equity and liabilities		**3,493,534**	3,219,360

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended 31 December	
		2019	2018
	Note	***HKD'000***	*HKD'000*
Revenue	*3*	**2,580,961**	2,516,422
Cost of sales	*7*	**(1,830,704)**	(1,728,430)
Gross profit		**750,257**	787,992
Other gains – net	*6*	**12,689**	64,213
Selling and marketing costs	*7*	**(81,490)**	(78,975)
Research and development expenses	*7*	**(270,818)**	(247,552)
Administrative expenses	*7*	**(262,527)**	(215,634)
Net impairment losses on financial and contract assets	*7*	**(7,619)**	(676)
Operating profit		**140,492**	309,368
Finance income		**15,411**	6,194
Finance expenses		**(33,059)**	(32,399)
Finance expenses – net		**(17,648)**	(26,205)
Share of losses of investments accounted for using equity method		**(9,544)**	(1,054)
Profit before income tax		**113,300**	282,109
Income tax expenses	*8*	**(4,520)**	(23,895)
Profit for the year		**108,780**	258,214
Profit attributable to:			
Owners of the Company		**117,388**	261,792
Non-controlling interests		**(8,608)**	(3,578)
		108,780	258,214
Earnings per share for profit attributable to equity holders of the Company ***(HKD per share)***			
Basic	*10*	**0.15**	0.35
Diluted	*10*	**0.15**	0.34

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

These consolidated financial statements are presented in Hong Kong dollars ("HKD"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 17 March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (the "HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss ("FVPL"), and financial assets at fair value through other comprehensive income ("FVOCI"), which are carried at fair value.

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

2.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

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

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

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(c) Changes in accounting policies

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

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

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

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

(i) Practical expedients applied

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application

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

(ii) Measurement of lease liabilities

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

(iii) Measurement of right-of-use assets

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

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

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

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

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

(v) Lessor accounting

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

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 products were made to external customers for the year ended 31 December 2019 and 2018.

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

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

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

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

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

During the year ended 31 December 2019, revenue of approximately HKD715,969,000 (2018: HKD851,310,000) was derived from three customers, which comprised 28% (2018: 34%) of the total revenue of the Group.

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

(d) For the year ended 31 December 2019, revenue recognised at a point in time for sale of products amounted to approximately HKD2,518,950,000 (2018: HKD2,421,584,000) and revenue recognised over time for coating business amounted to approximately HKD62,011,000 (2018: HKD94,838,000).

4 TRADE AND OTHER RECEIVABLES

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

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

At 31 December 2019 and 2018, the fair value of trade and other receivables of the Group approximated their carrying amounts due to the short term nature of the current receivables.

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

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

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

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

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

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

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

(b) Impairment and risk exposure

Trade receivables and contract assets

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

The loss allowance increased from HKD1,046,000 (as at 31 December 2018) to HKD8,441,000 (as at 31 December 2019) for trade receivables and contract assets.

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

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

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

(d) Other receivables

Included in the other receivable is a balance due from Integrated Photonics, Inc. ("IPI"), a third-party supplier of the Group amounting to HKD26,102,000 (2018: HKD26,685,000), pursuant to an agreement signed between O-Net Shenzhen, a subsidiary of the Company, and IPI in 2014. Under the agreement, O-Net Shenzhen will be ensured stable supply of products by IPI from 2014 to 2019. In return, O-Net Shenzhen paid USD3,434,000 (equivalent to HKD29,640,000) to purchase 2,600 troy ounces of platinum ("Platinum") and deliver the Platinum to IPI for production capacity expansion purpose. IPI will keep the Platinum insured against loss or damage at all times during the term until IPI has repaid the full amount of the cost of Platinum to O-Net Shenzhen after 5 years. As security for such receivable, O-Net Shenzhen was granted a first priority lien by IPI over the Platinum. The other receivable due from IPI has been paid in January 2020.

5 TRADE AND OTHER PAYABLES AND POST-EMPLOYMENT BENEFIT OBLIGATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The principal actuarial assumptions used by the Company are as follows:

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

6 OTHER GAINS – NET

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

(a) Included in the government grant are amortisation of deferred government grant of HKD3,110,000 (2018: HKD5,200,000), the remaining was mainly cash received from the Department of Science and Technology of Guangdong Province and was recognized during the year upon receipt.

7 EXPENSES BY NATURE

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

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

8 INCOME TAX EXPENSES

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

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

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

(c) The applicable federal income tax rate for O-Net USA is 21%, and the applicable California state corporate income tax rate is 8.84%.

(d) The applicable tax rate for ITF and ArtIC is 26.6% and 26.5% respectively.

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

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

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

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

9 DIVIDENDS

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

10 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period excluding treasury shares.

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

(b) Diluted

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has continued to maintain its position as a leader in the provision of high-technology products and optical networking components. In addition to its market leadership in key passive optical components such as WDM and EDFA, while making significant strides in active optical components such as AOC and ICR products. As major telecommunication operators begin to roll out 5G in the coming years, the Group expects to see healthy growth in its core business. Outside of the core optical networking business segment, industrial and sensing products saw mixed results in 2019. The first half of 2019 saw strong shipments of optical communications components, while the second half experienced a noticeable decline attributable primarily to a build-up in downstream inventory that has since been resolved. The Group's successful acquisition of 3SP Technologies ("3SP") has bolstered its product portfolio by improving its capabilities in laser diodes, which are primarily used in optical communications. The strategy to diversify its product portfolio, which began in 2012, has proven useful during cyclically low phases of the telecommunications investment cycle.

Apart from the optical networking market for telecommunications applications, its traditional core business, the Group also continues to focus on other markets, including: (i) machine vision for industrial automation; (ii) electronic cigarettes; (iii) the multikilowatt fiber laser industry; (iv) LiDAR for emerging ADAS application; and (v) coating solutions for the consumer electronics products.

INDUSTRY AND BUSINESS REVIEW

Demand for optical networking components appears to have bottomed in the second half of 2019. Major telecommunication operators have indicated that they will begin significant investments in 5G infrastructure, with Japan and Korea leading the way. Despite the recent COVID-19 outbreak, it is still expected that, unlike previous iterations, the 5G investment cycle will start in Asia with signs that major Chinese operators may roll out deployments in 2020. Unlike the 4G cycle, the 5G cycle is likely to happen more gradually and over a longer period of time, which may improve the Group's visibility into future demand. For example, while China may deploy 5G as early as 2020, this will likely only be available in tier-1 cities, while tier-2 and tier-3 cities may not have 5G for many years to come. This progressive rollout of 5G will smooth out demand and may reduce the Group's earnings volatility. Due to the hardware requirements of 5G, infrastructure density will likely increase, creating opportunities for optical component manufacturers to boast volumes.

Optical Networking Business

In FY2019, the Group's optical components business maintained modest growth by leveraging its core technologies and customer relationships. Despite relatively weak industry-wide demand during the year, the Group has duly seized opportunities resulting from both the telecommunications and data-communications sectors, and generated revenue of HKD2,181.7 million, up 4% year-on-year. Optical networking remains the Group's core business, representing 85% of total revenue.

Industrial and Sensing Businesses

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

Machine Vision Business

The Industry 4.0 initiative ushered in during 2015, has brought immense opportunities to the automation and sensing sectors in China. For its part, in FY2015, the Group rolled out its first machine vision system, and has continued to invest and expand its product portfolio here. Buoyed by strong demand from mainland China, sales of this product increased by 21% year-on-year, contributing HKD52.9 million in revenue to the industrial applications businesses in FY2019.

Automation Solutions Business for E-cigarettes

As a leading supplier of the E-cigarette industry by virtue of supplying heating coils and automated E-liquid filling & assembly machines, the Group continued to provide a series of automation solutions for the E-cigarette manufacturing industry. Capitalising on strong demand and the Group's longstanding relationships with several major E-cigarette makers in China and overseas, its E-cigarette business recorded a year-on-year growth of 10% and generated revenue of HKD105.4 million for the year.

Industrial Laser Business

Since 2015, the Group has successfully tapped the industrial laser industry through the acquisition of ITF Technologies Inc. ("ITF"), a leading supplier of ultra-reliable fiber-optic components, such as Fiber Bragg Grating (FBG) and high-power fused components and modules for fiber laser systems, which has addressed several applications for industrial fiber lasers across the different power and wavelength spectra, including macro/micro material processing, marking and engraving, and welding applications since 2006. Capitalising on ITF's innovations and the synergies after the acquisition, the Group was able to significantly expand its offerings in multi-kilowatt applications by offering a class-leading 2-kilowatt laser engine and 6-kilowatt laser combiners, as well as discrete optical components capable of handling 3 kilowatts of power each. As a result, the Group generated HKD175.9 million in revenue from the industrial laser business in FY2019 which represented a growth rate of 15% in sales over the prior year.

LiDAR Business

ADAS is believed to represent one of the most significant technologies to affect the evolution of the automobile while LiDAR is among the key solutions for making high resolution images or maps used by ADAS for autonomous vehicles. By 2022, the value of the LiDAR market is projected to be USD5.2 billion according to estimates, achieving a CAGR of 25%. This significant growth will be driven by the rise in automated and highly automated vehicles expected to be on the road in less than ten years' time. To capitalise on such growth, the Group has established a production line for the assembly of laser source modules for LiDAR, and its optical components for the laser source module of LiDAR, which have also been qualified by a global technology giant. Furthermore, it is pursuing cooperative ties with other LiDAR players and securing additional customers. Despite these longer term opportunities, the LiDAR business is still at very early stages, where commercial adoption is still being tested. The gradual adoption of this new technology translated to a lighter-than-expected sales volume for 2019, generating revenue of HKD11.0 million for the year, down 53% over the preceding year.

Consumer Electronics Business

Although consumer electronics are expected to grow over the next several years, the rate of growth slowed in 2019 with the delay of new smartphone models entering the market. Major phone makers are waiting for investments in 5G infrastructure to release 5G compatible phone models during 2020 and 2021. We expect the smartphone supply chain to bottom out in the first half of 2020 as it continues a trend of declining sales which began in the first half of 2018. For the fiscal year ended 2019, consumer electronics revenue declined 44% to HKD54.1 million.

FINANCIAL REVIEW

Revenue

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

Optical Networking Business

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

Industrial and Sensing Businesses

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

Machine Vision Business

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

Automation Solutions Business for E-cigarettes

Revenue of HKD105.4 million was recorded in FY2019, representing an increase of HKD9.2 million, or 9.6% as compared with that of HKD96.2 million in FY2018. The increase in revenue in FY2019 was primarily attributable to the greater demand for heating coils from the major E-cigarette makers.

Industrial Laser Business

The Group's industrial laser business was contributed by supplying optical components for the industrial laser application, such as fiber lasers. In FY2019, revenue from the industrial laser business of HKD175.9 million was recorded, representing an increase of HKD23.4 million, or 15.3% as compared with that of HKD152.5 million in FY2018. The revenue rise was primarily due to the contribution of 3SP due to the completion of acquisition in March 2019.

LiDAR Business

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

Consumer Electronics Business

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

Gross Profit and Gross Profit Margin

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

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

Other Gains

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

Selling and Marketing Costs

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

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

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

Research and Development Expenses

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

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

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

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

Administrative Expenses

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

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

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

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

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

Finance Income/Expenses

Finance income in FY2019 amounted to HKD15.4 million, representing an increase of HKD9.2 million, compared with HKD6.2 million in FY2018. The increase in finance income was primarily due to the net effect of (i) the impact of the stronger USD (for entities within the Group using RMB as functional currency) on net effect of cash and bank balances and bank borrowings, the foreign exchange gain was HKD11.1 million in FY2019 as compared with foreign exchange gain of HKD2.3 million in FY2018; and (ii) the increase in interest income of HKD0.4 million.

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

Share of Losses of Associates

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

Share of Loss of a Joint Venture

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

Income Tax Expenses

Currently, income tax expenses of the Group mainly consist of P.R.C. Enterprise Income Tax ("PRC EIT"), Hong Kong profits tax, Canada profits tax and deferred taxation, which were calculated at the rates prevailing in the relevant jurisdictions. PRC EIT is based on the assessable income of entities within the Group that are incorporated in the PRC, and adjusted for items which are not assessable or deductible for PRC EIT purposes.

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

NON-GAAP FINANCIAL PERFORMANCE

Reconciliation of Non-GAAP Financial Measures

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

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

* Profit attributable to Equity Holders of the Company

PROSPECTS

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

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

Optical Networking Business

Underpinned by innovation, the optical networking business was able to maintain growth during the past year. Going forward, the Group remains highly optimistic with the imminent rollout of 5G communications. Over the next decade, 5G is expected to penetrate most major cellular markets, providing a steady demand for the Group's core products. Unlike 2019, which witnessed a bottoming of the global telecommunications investment cycle, 2020 is expected to be the start of a much larger communications infrastructure upgrade and a longer period of capital expenditure. This tail wind will enable the Group to advance into new technologies and improve its product line to better meet customers' demands. Chief among these new products for 2020 include a broader range of active optical components as well as new transport modules, including ROADMs and smaller form factor optical amplifiers.

Industrial and Sensing Businesses

The Group's industrial and sensing businesses, which accounted for 15% of total revenue in 2019, achieved mixed results in 2019. Some business divisions, such as Machine Vision, continue to exceed the Group's expectations, as it expands to new markets and new geographies. Furthermore, while China's automation industry is projected to be valued at approximately USD100 billion in 2020 according to an estimate, a large number of local Chinese enterprises continue to operate facilities from past industrial stages, hence the window of opportunity is immense. Especially in light of the recent Epidemic, the Group looks to build on its success by providing automation solutions, as well as offering machine vision systems and sensing products. The development of such products began in 2013, with products launched in 2015, and continuing to expand through a new series of products to tap the opportunities generated by the trend towards Industry 4.0 in order to further penetrate the intelligent, digitalised and networked manufacturing market.

O-Net, along with ITF, continues to develop the key optical components necessary for the successful deployment of cost-effective and high performance LiDAR solutions. The Group is committed to continue the development of next-generation laser source modules for 1550 nm LiDAR at a lower price point thereby making ADAS a more cost-effective proposition to members of the automotive industry. The Group is confident that by leveraging its advanced LiDAR components and cost-effective laser source module for LiDAR, this business can serve as an additional revenue stream that can drive its overall revenue growth in the future.

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

The revolution that is taking place in the manufacturing and production industry brought upon by Industry 4.0 initiatives is set to have a significant and positive impact on the automation and digitalisation industries in the coming years and beyond. Leveraging the Group's position as a leader in industrial automation, automated electronic cigarette solutions continue to be an important growth area. The Group remains confident that the recent downturn in certain electronic cigarette markets is only temporary and that policy makers will eventually recognize the benefits of electronic cigarettes over traditional tobacco cigarettes.

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

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 31 December 2019, the Group had cash and cash equivalents of approximately HKD481.1 million (31 December 2018: HKD341.6 million). The increase was due to net proceeds from bank borrowings and decrease of pledged bank deposit. The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

PLEDGE ON GROUP ASSETS

As at 31 December 2019, the Group had bank deposits of HKD10.7 million (31 December 2018: HKD65.7 million) pledged as guarantee for payables to suppliers for purchasing of goods.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2019, the Group had contractual capital commitments of approximately HKD33.6 million (31 December 2018: HKD4.2 million). As of 31 December 2019, the Group had not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

CAPITAL EXPENDITURE

For 2019, the Group's capital expenditure on property, plant and equipment consisted primarily of additions to building, plant and machinery, office equipment and construction in progress of approximately HKD215.8 million (31 December 2018: HKD179.5 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

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

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

EMPLOYEE BENEFITS

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

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

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

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

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

The Post-IPO Share Option Scheme was adopted on 9 April 2010 to retain staff members who have made contributions to the success of the Group. For 2019, no option was granted (30 December 2018: Nil).

The Company adopted a restricted share award scheme (“Share Award Scheme”) on 9 May 2014 as an incentive to recognize the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. Restricted shares under the Share Award Scheme will be comprised of shares of the Company subscribed for or purchased by the trustee out of cash arranged by the Company. During the year ended 31 December 2019, no restricted shares were purchased by the trustee from the market, and 18,881,000 new shares were allotted and issued to the trustee by the Company for the purpose of the Share Award Scheme. For 2019, 6,510,000 shares were granted to employees of the Group (2018: 16,230,000).

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

FINAL DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, 29 May 2020 (“2020 AGM”), the register of members of the Company will be closed from Monday, 25 May 2020 to Friday, 29 May 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2020 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 22 May 2020.

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

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

MATERIAL EVENT SINCE THE END OF THE FINANCIAL PERIOD

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

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

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

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

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2019, the Company repurchased 217,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD3.58 to HKD3.61 per share on the SEHK. Details of the repurchases are as follows:

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Rules (the "Listing Rules") Governing the Listing of Securities on the SEHK as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2019.

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 2019, the Company was in compliance with all the relevant code provisions set out in the CG Code except for the deviation as explained below.

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

Save as the aforesaid, in the opinion of the Directors, the Company has met all the code provisions set out in the CG Code during the year ended 31 December 2019.

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 2019 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 2019 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, 17 March 2020

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.