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 2018

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 2018. These results have been reviewed by the Company's audit committee (the "Audit Committee").

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

		Year ended 31 December	
		2018	2017
	Note	***HKD'000***	*HKD'000*
Revenue	3	**2,516,422**	2,035,085
Cost of sales	5	**(1,728,430)**	(1,308,612)
Gross profit		**787,992**	726,473
Other gains – net	4	**64,213**	30,420
Selling and marketing costs	5	**(78,975)**	(76,152)
Research and development expenses	5	**(247,552)**	(230,820)
Administrative expenses	5	**(215,634)**	(177,126)
Net impairment losses on financial and contract assets	5	**(676)**	–
Operating profit		**309,368**	272,795
Finance income		**6,194**	2,113
Finance expenses		**(32,399)**	(25,963)
Finance expenses – net		**(26,205)**	(23,850)
Share of losses of investments accounted for using equity method		**(1,054)**	(3)
Profit before income tax		**282,109**	248,942
Income tax expenses	6	**(23,895)**	(43,110)
Profit for the year		**258,214**	205,832
Profit attributable to:			
Owners of the Company		**261,792**	208,867
Non-controlling interests		**(3,578)**	(3,035)
		258,214	205,832
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
Basic	7	**0.35**	0.28
Diluted	7	**0.34**	0.27

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Year ended 31 December	
	2018	2017
	HKD'000	*HKD'000*
Profit for the year	**258,214**	205,832
Other comprehensive income		
Items that may be reclassified to profit or loss		
Transfer of reserves to income statement upon disposal of a subsidiary	**–**	(2)
Currency translation differences	**(84,839)**	104,164
Items that will not be reclassified to profit or loss		
Changes in the fair value of equity investments at fair value through other comprehensive income	**(3,024)**	–
Other comprehensive (loss)/income for the year	**(87,863)**	104,162
Total comprehensive income for the year	**170,351**	309,994
Attributable to:		
– Owners of the Company	**173,929**	312,721
– Non-controlling interests	**(3,578)**	(2,727)
Total comprehensive income for the year	**170,351**	309,994

CONSOLIDATED BALANCE SHEET

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

	Note	As at 31 December **2018** *HKD'000*	2017 *HKD'000*
ASSETS			
Non-current assets			
Land use right		**23,120**	24,865
Property, plant and equipment		**957,831**	916,020
Intangible assets		**90,423**	82,648
Investments accounted for using equity method		**31,119**	2,497
Deferred income tax assets		**698**	2,050
Financial assets at fair value through other comprehensive income		**1,656**	–
Available-for-sale financial assets		**–**	12,272
Derivative financial instruments		**97**	97
Other non-current receivables	9	**126,832**	73,213
Other non-current assets		**157,154**	209,247
		1,388,930	1,322,909
Current assets			
Inventories		**501,025**	377,471
Contract assets		**27,180**	–
Trade and other receivables	9	**865,885**	975,048
Other current assets		**4,186**	1,552
Financial assets at fair value through profit or loss		**24,891**	18,816
Pledged bank deposits		**65,672**	84,851
Term deposits with initial term of over three months		**–**	2,492
Cash and cash equivalents		**341,591**	320,749
		1,830,430	1,780,979
Total assets		**3,219,360**	3,103,888

	Note	As at 31 December 2018 HKD'000	2017 HKD'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**8,020**	7,985
Share premium		**1,105,589**	1,100,025
Treasury shares		**(60,847)**	(74,927)
Other reserves		**56,918**	120,442
Retained earnings		**1,139,778**	877,986
		2,249,458	2,031,511
Non-controlling interests		**(1,994)**	1,584
Total equity		**2,247,464**	2,033,095
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**11,953**	2,498
Deferred government grants		**11,676**	15,107
		23,629	17,605
Current liabilities			
Trade and other payables	10	**428,750**	366,769
Contract liabilities		**9,997**	–
Current income tax liabilities		**21,750**	32,752
Borrowings		**487,770**	653,667
		948,267	1,053,188
Total liabilities		**971,896**	1,070,793
Total equity and liabilities		**3,219,360**	3,103,888

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.

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 19 March 2019.

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 2018:

- HKFRS 9 Financial instruments
- HKFRS 15 Revenue from Contracts with Customers
- Classification and Measurements of Share-based Payment Transactions – Amendments to HKFRS 2

- Annual Improvements 2014–2016 cycle
- Transfer to Investment Property – Amendments to HKAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group had to change its accounting policies and make modified retrospective adjustments as a result of adopting HKFRS 9 and HKFRS 15. Most of the other amendments listed above did not have significant impact on the operating results and financial position for the year ended 31 December 2018.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

		Effective for annual periods beginning on or after
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The effective date has now been deferred
HKFRS 16	Leases	1 January 2019
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Annual Improvements projects	Annual Improvements to HKFRSs 2015–2017 Cycle	1 January 2019
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a business	1 January 2020
Conceptual Framework for Financial Reporting 2018		1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021

HKFRS 16 Leases

Nature of change

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

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HKD83,293,000. The Group estimates that approximately 1% of these relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

(c) Changes in accounting policies

The Group adopted HKFRS 9 and HKFRS 15 from 1 January 2018, which result in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements.

In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated. As a consequence, any adjustments to carrying amounts of financial assets or liabilities are recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings. Provisions for impairment have not been restated in the comparative period, as well.

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Impact on the financial statements

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been presented. The adjustments are explained in more detail as below.

Consolidated balance sheet (extract)	**As at 31 December 2017 As originally presented**	**HKFRS 9**	**HKFRS 15**	**As at 1 January 2018 Restated**
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*
Available-for-sale financial assets ("AFS")	12,272	(12,272)	–	–
Financial assets at FVOCI	–	4,680	–	4,680
Financial assets at FVPL	–	7,592	–	7,592
Contract liabilities	–	–	9,051	9,051
Trade and other payables	366,769	–	(9,051)	357,718

HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 Financial Instruments ("HKAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 Financial Instruments – Disclosures.

(i) Classification and measurement

The Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018	**AFS**	**Financial assets at FVOCI**	**Financial assets at FVPL**
	HKD'000	*HKD'000*	*HKD'000*
Closing balance 31 December 2017 – HKAS 39	12,272	–	–
Reclassify unlisted equity securities from AFS to financial assets at FVOCI	(4,680)	4,680	–
Reclassify unlisted equity securities from AFS to financial assets at FVPL	(7,592)	–	7,592
Opening balance 1 January 2018 – HKFRS 9	–	4,680	7,592

– Reclassification from AFS to financial assets at FVOCI for unlisted equity securities

The Group elected to present in other comprehensive income changes in the fair value of certain its equity investments in unlisted securities previously classified as AFS, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, equity interest in unlisted companies with fair value of HKD4,680,000 was reclassified from AFS to financial assets at FVOCI on 1 January 2018.

– Reclassification from AFS to financial assets at FVPL for unlisted equity securities

Certain investments in unlisted securities were reclassified from AFS to financial assets at FVPL (HKD7,592,000 as at 1 January 2018). They do not meet the HKFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

– Financial liabilities

There is 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.

– Reclassifications of financial instruments on adoption of HKFRS 9

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		Carrying amount		
	Original (HKAS 39)	New (HKFRS 9)	Original *HKD'000*	New *HKD'000*	Difference *HKD'000*
Non-current financial assets					
Equity securities	AFS	Financial assets at FVOCI	4,680	4,680	–
Equity securities	AFS	Financial assets at FVPL	7,592	7,592	–
Derivatives financial instruments	Financial assets at FVPL	Financial assets at FVPL	97	97	–
Current financial assets					–
Trade and other receivables	Amortised cost	Amortised cost	975,048	975,048	–
Financial assets at FVPL	Financial assets at FVPL	Financial assets at FVPL	18,816	18,816	–
Cash and cash equivalents	Amortised cost	Amortised cost	320,749	320,749	–
Term deposits with initial term of over three months	Amortised cost	Amortised cost	2,492	2,492	–
Pledged bank deposits	Amortised cost	Amortised cost	84,851	84,851	–

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model.

- Trade receivables, contract assets and bills receivable
- Other receivables

Trade receivables and contract assets

The Group applies the HKFRS 9 simplified approach to measure expected credit losses ("ECL") which uses a lifetime expected loss allowance for all trade receivables, contract assets and bills receivable. The restatement of the loss allowance on transition on HKFRS 9 on 1 January 2018 was immaterial. The loss allowance increased from HKD752,000 (as at 1 January 2018) to HKD1,046,000 (as at 31 December 2018) for trade receivables, contract assets and bills receivable.

Other receivables

The Group applies the HKFRS 9 three-stage approach to measure ECL. The other receivables are performing with either low credit risk or have not had significant increase in credit risk since initial recognition.

HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers on 1 January 2018. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a five-step approach:(i) identify the contract(s) with a customer; (ii) identify separate performance obligations in a contract; (iii) determine the transaction price; (iv) allocate transaction price to performance obligations; and (v) recognise revenue when performance obligation is satisfied. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The Group assess its role as an agent or principal for each transaction and in an agency arrangement the amounts collected on behalf of the principal are excluded from revenue. The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria have been met for each of the activities, as described below.

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

Sales of products are recognised when control of the products has transferred, being when the products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provision have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. The Group does not expect to have any contracts with material consideration where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money. The Group does not recognise warranty service as a separate performance obligation in a single contract as the warranty service is assurance type.

A receivable is recognised when the products are delivered to customers and there is no unfulfilled obligation as this is the point in time that the considerarion is unconditional because only the passage of time is required before the payment is due.

When the products are delivered to customers and there is no unfulfilled obligation but the right to consideration is not yet unconditional other than the passage of time, a contract asset is recognised.

(ii) Revenue recognised over time for consumer electronics business

An entity transfers control of a good over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met: (1) customer simultaneously consumes the benefits as the entity performs, (2) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced or, (3) entity's performance does not create an asset with alternative use and there is an enforceable right to payment for performance to date. Perfomance of consumer electronics business enhances assets that customers control as the assets are enhanced, and revenue generated from consumer electronics business is recognised over time.

(iii) Transportation and handling cost

As the transportation and handling activities occur before the customer obtains control of related products, they are not separate performance obligation, therefore, related costs are fulfillment cost which are recognised as assets following the adoption of HKFRS 15. The assets are amortised on a systematic basis that is consistent with the transfer to the customer of the products or service to which the assets relate. Due to the short period of transportation and handling activities, related assets are not material at the balance sheet date. The transportation and handling costs of the Group are charged into the cost of sales for the year ended 31 December 2018.

(iv) Presentation of assets and liabilities related to contracts with customers

HKFRS 15 Revenue from Contracts with Customers requires the presentation of any unconditional rights to consideration as a receivable separately from contract assets. The Group has therefore reclassified its contract assets and contact liabilities upon adoption of HKFRS 15.

- Contract assets recognised when the products are delivered to customers and there is no unfulfilled obligation but the right to considerations is not yet unconditional other than the passage of time;

- Contract liabilities in relation to advance received from customers which were previously included in trade and other payables.

Other than certain reclassification, the adoption of HKFRS 15 did not result in any significant impact to the retained earnings as at 1 January 2018.

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 2018 (2017: Same).

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

	2018	2017
	HKD'000	*HKD'000*
The PRC	**953,257**	965,032
Europe	**664,662**	429,135
North America	**447,614**	326,299
Other Asian countries excluding the PRC	**450,889**	314,619
	2,516,422	2,035,085

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 31 December 2018 and 2017 are as follows:

	2018	2017
	HKD'000	*HKD'000*
The PRC	**971,375**	940,068
Hong Kong	**225,986**	204,426
North America	**101,775**	90,783
	1,299,136	1,235,277

(c) Revenue of approximately HKD488,083,000 (2017: HKD229,692,000) and trade receivables of approximately HKD90,673,000 (2017: HKD95,144,000) are derived from one (2017: one) external customer, which are more than 10% of the Group's total revenue and total trade receivables.

During the year ended 31 December 2018, revenue of approximately HKD851,310,000 (2017: HKD467,579,000) was derived from three customers, which comprised 34% (2017: 25%) 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 2018, revenue recognised at a point in time for sale of products amounted to HKD2,419,725,000, and revenue recognised over time for consumer electronics business amounted to HKD96,697,000.

4. OTHER GAINS – NET

	2018	2017
	HKD'000	*HKD'000*
Government grants (a)	**41,000**	48,753
Rental income	**715**	1,604
Gain on sales of scrapped or surplus raw materials	**3,196**	7,201
Gain/(Loss) on disposal of property, plant and equipment – net	**874**	(466)
Loss on disposal of a subsidiary	**–**	(59)
Fair value (loss)/gain on derivative financial instruments	**(2,723)**	422
Net foreign exchange gain/(loss)	**21,373**	(28,607)
Others	**(222)**	1,572
	64,213	30,420

(a) Included in the government grant are amortization of deferred government grant of HKD5,200,000 (2017: HKD17,739,000), the remaining was mainly cash received from the Department of Science and Technology of Guangdong Province and was recognized during the year upon receipt.

5. EXPENSES BY NATURE

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

	2018	2017
	HKD'000	*HKD'000*
Staff costs – excluding share options granted to directors and employees	**671,870**	501,595
Share options and share award granted to directors and employees	**42,554**	22,721
Raw materials consumed	**1,340,605**	1,057,384
Changes in inventories of finished goods and work in progress	**(75,578)**	(41,284)
Depreciation	**100,456**	69,156
Amortization	**13,438**	13,835
Provision/(write-back) of impairment of financial and contract assets *(Note 9)*	**676**	(248)
Provision/(write-back) for impairment of inventories	**4,547**	(323)
Sales commissions	**16,165**	20,559
Utilities charges	**50,717**	50,382
Operating lease rental	**9,631**	12,499
Freight charges	**20,562**	16,259
Auditors' remuneration	**2,720**	3,003
Professional and consultancy fees	**15,509**	17,129
Travelling expenses	**10,828**	8,111
Advertising costs	**2,089**	1,294
Other tax expense	**15,921**	17,119
Others	**28,557**	23,519
	2,271,267	1,792,710

6. INCOME TAX EXPENSES

	2018	2017
	HKD'000	*HKD'000*
Current income tax		
– Hong Kong profits tax (b)	**14,703**	–
– USA profits tax (c)	**(6,334)**	389
– Canada profits tax (d)	**3,446**	2,488
– PRC enterprise income tax (e)	**969**	30,176
Total current income tax	**12,784**	33,053
Deferred income tax	**11,111**	10,057
Income tax expenses	**23,895**	43,110

(a) The Company and O-Net Communications Holdings Limited ("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 Communications (USA) Inc. (“O-Net USA”) is 21%, and the applicable California state corporate income tax rate is 8.84%.

(d) The applicable tax rate for ITF Technologies, Inc (“ITF”). and ArtIC Photonics, Inc (“ArtIC”). is 26.7% and 26.5% respectively.

(e) O-Net Communications (Shenzhen) Limited (“O-Net Shenzhen”) and O-Net Automation Technology (Shenzhen) Limited (“O-Net Auto SZ”) 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. They are entitled to a concessionary enterprise income tax rate of 15%.

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:

	2018	2017
	HKD’000	*HKD’000*
Profit before income tax	**282,109**	248,942
Tax calculated at statutory tax rates applicable to entities comprising the Group	**45,864**	49,867
Tax effect of:		
Research and development costs eligible for additional deduction	**(28,289)**	(15,846)
Utilization of previously unrecognized tax losses	**(2,244)**	–
Overprovision in prior years	**(6,334)**	–
Tax losses of which no deferred income tax asset was recognized	**6,542**	3,339
Adjustments for current tax rate	**153**	–
Changes in the applicable tax rate		
– Share option expenses	**8,084**	3,786
– Others	**119**	1,964
Income tax expenses	**23,895**	43,110

7. 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.

	2018	2017
Profit attributable to equity holders of the Company *(HKD’000)*	**261,792**	208,867
Weighted average number of ordinary shares in issue *(thousands)*	**748,857**	751,323
Basic EPS *(HKD per share)*	**0.35**	0.28

(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.

	2018	2017
Profit attributable to equity holders of the Company *(HKD'000)*	**261,792**	208,867
Weighted average number of ordinary shares in issue *(thousands shares)*	**748,857**	751,323
Adjustments for share options and share award *(thousands shares)*	**15,608**	32,500
Weighted average number of ordinary shares for the calculation of diluted earnings per share *(thousands shares)*	**764,465**	783,823
Diluted EPS *(HKD per share)*	**0.34**	0.27

8. DIVIDENDS

At a meeting of the directors held on 19 March 2019, the directors proposed a final dividend of HKD0.02 per ordinary share for the year ended 31 December 2018, which is subject to the approval by the shareholders in general meeting. This proposed dividend has not been reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2019.

9. TRADE AND OTHER RECEIVABLES

	2018	2017
	HKD'000	*HKD'000*
Trade receivables (a)	**692,019**	708,062
Less: provision for impairment of receivables (b)	**(1,046)**	(752)
Trade receivables – net	**690,973**	707,310
Amounts due from related parties (a)	**161**	379
Bills receivable (c)	**86,972**	193,062
Prepayments	**44,660**	30,425
Interest receivables	**611**	940
Other receivables (d)	**169,340**	116,145
	992,717	1,048,261
Less non-current portion: other receivables (d)	**(126,832)**	(73,213)
Current portion	**865,885**	975,048

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. Except for other receivable of Integrated Photonics, Inc. ("IPI"), the Group does not hold any collateral as security.

At 31 December 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 (2017: Same).

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

	2018	2017
	HKD'000	*HKD'000*
RMB	**429,543**	616,755
USD	**464,120**	405,650
EUR	**80,116**	17,040
CAD	**1,475**	6,209
HKD	**16,189**	467
Others	**1,274**	2,140
	992,717	1,048,261

(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:

	2018	2017
	HKD'000	*HKD'000*
Within 30 days	**312,916**	267,158
31 to 60 days	**180,922**	192,290
61 to 90 days	**133,089**	165,609
91 to 180 days	**58,893**	60,589
181 to 365 days	**4,525**	21,554
Over 365 days	**1,835**	1,241
	692,180	708,441

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

	2018	2017
	HKD'000	*HKD'000*
Past due 1 to 90 days	**141,650**	179,591
Past due 91 to 180 days	**4,741**	8,188
Past due 181 to 365 days	**2,555**	6,001
Past due over 365 days	**1,680**	462
	150,626	194,242

(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 restatement of the loss allowance on transition to HKFRS 9 on 1 January 2018 was immaterial.

The loss allowance increased from HKD752,000 (as at 1 January 2018) to HKD1,046,000 (as at 31 December 2018) 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:

	2018	2017
	HKD'000	*HKD'000*
Within 30 days	**15,552**	12,874
31 to 90 days	**33,989**	98,042
91 to 180 days	**36,768**	78,625
181 days to 365 days	**663**	3,521
	86,972	193,062

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 IPI, a third-party supplier of the Group amounting to HKD26,685,000 (2017: HKD28,005,000), 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 receivables due from IPI will be repaid in 2019.

The remaining balance amounting to HKD120,500,000 (2017: HKD45,208,000) is the loan provided to 3SP Technologies ("3SP"). The Group has agreed to acquire the entire issued shares of 3SP, and such loan will become shareholder's loan upon completion.

10. TRADE AND OTHER PAYABLES

	2018	2017
	HKD'000	*HKD'000*
Trade payables (a)	**238,616**	234,920
Bills payable (c)	**63,397**	16,971
Accrued expenses	**31,166**	27,996
Accrued staff costs	**66,145**	51,736
Other payables	**15,189**	12,925
Advance from customers	**–**	9,051
Other taxes payable	**14,237**	13,170
	428,750	366,769

At 31 December 2018, the fair value of trade and other payables of the Group approximated their carrying amounts due to their short maturities (2017: Same).

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

	2018	2017
	HKD'000	*HKD'000*
Within 30 days	**148,594**	96,548
31 days to 60 days	**41,571**	68,581
61 days to 180 days	**27,222**	55,537
181 days to 365 days	**9,776**	7,607
Over 365 days	**11,453**	6,647
	238,616	234,920

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

	2018	2017
	HKD'000	*HKD'000*
RMB	**278,911**	214,547
USD	**132,418**	134,646
CAD	**14,910**	13,646
HKD	**1,366**	2,462
Others	**1,145**	1,468
	428,750	366,769

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

	2018	2017
	HKD'000	*HKD'000*
Within 30 days	**31,054**	477
31 to 90 days	**10,307**	3,499
91 to 180 days	**22,036**	12,995
	63,397	16,971

11. SUBSEQUENT EVENT

On 19 March 2019, O-Net BVI has entered into a supplementary agreement with Advance Photorics Investments Limited ("API") and its sole shareholder to acquire 100% equity interest in API, which holds 100% equity interest of 3SP, and consequently the acquisition of 3SP was completed on the same day. Because the purchase price allocation for the acquisition has not been finalised before the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has continued to improve its position as a leader in the provision of high-technology products and optical networking components. In addition to maintaining its market leadership in key passive optical components such as WDM and EDFA, the Group has also made significant strides in active optical components such as 100GbE TOSA and ROSA products. As major telecommunication operators begin to roll out 5G in the coming years, we expect to see healthy growth in our core business. Outside of the core optical networking business segment, industrial and sensing products continued to gain traction in the market. The Group's successful acquisition of 3SP Technologies has bolstered its product portfolio by improving its capabilities in Light Detection And Ranging ("LiDAR") and the fabrication of Industrial Lasers. The strategy to diversify its product portfolio, which began in 2012, has proven useful during cyclically low phases of the telecommunications investment cycle. The first half of 2018 appeared to have represented the trough of the 4G investment cycle while the second half of 2018 may have been the beginning of the 5G 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) cloud data center infrastructure; (ii) numerous automation-related businesses to capture Industry 4.0 and robotics opportunities; (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 first half of 2018, with a notable uptick in the second half of the year. Major telecommunication operators have indicated that they will begin significant investments in 5G infrastructure as early as 2019, with Japan and Korea leading the way. Unlike previous iterations, this investment cycle is expected to start in Asia, with signs that major Chinese operators may roll out deployments as early as 2020. North American operators are targeting 5G deployment in 2021 with Europe following in 2022. 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 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 FY2018, the Group's optical components business has duly seized opportunities resulting from both the telecommunications and data-communications sectors, and generated revenue of HKD2,103.6 million, up 31.4% year-on-year, far outstripping the pace of growth in the global optical market. Optical networking remains the Group's core business, representing 83.6% 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

Industry 4.0 initiative ushered in 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 to cater to strong demand. Consequently, sales of this product achieved impressive growth of 35.6% year-on-year, contributing HKD43.8 million in revenue to the industrial applications businesses in FY2018, thus reaffirming its growth driver status.

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 various automation solutions for the E-cigarette manufacturing industry. Capitalizing on strong demand and the Group's longstanding relationships with several major E-cigarette makers in China and overseas, its E-cigarette business recorded a strong year-on-year growth of 51.3% and generated revenue of HKD96.2 million for the year.

Industrial Laser Business

Since 2015, the Group has successfully tapped the industrial laser industry through the acquisition of ITF, a leading supplier of ultra-reliable fiber-optic components, such as Fiber Bragg Grating (FBG) and high-power fused components and modules for fiber laser systems, which has addressed several applications for industrial fiber lasers across the different power and wavelength spectra, including macro/micro material processing, marking and engraving, and welding applications since 2006. Capitalizing on ITF's innovations and the synergies after the acquisition, the Group was able to significantly 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 HKD152.5 million in revenue from the industrial laser business in FY2018 which represented a growth rate of 23.5% 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 capitalize on such growth, the Group has established a production line for the assembly of laser source modules for LiDAR, and its optical components for the laser source module of LiDAR, which have also been qualified by a global technology giant. Furthermore, it is pursuing cooperative ties with other LiDAR players and securing additional customers. All of these efforts have further bolstered the Group's position in this burgeoning business and generated revenue of HKD23.6 million for the year, up 53.2% 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 2018 with the delay of new smart phone models entering the market. Major phone makers are waiting for investments in 5G infrastructure to release 5G compatible phone models in 2019 and 2020. We expect the smart phone supply chain to bottom out in the first half of 2019 as it continues a trend of declining sales which began in the first half of 2018. For the fiscal year ended 2018, consumer electronics revenue declined 51.5% generating HKD96.7 million.

FINANCIAL REVIEW

Revenue

For FY2018, the Group reported revenue of HKD2,516.4 million, representing an increase of HKD481.3 million, or 23.6%, compared with that of HKD2,035.1 million in FY2017. The increase in revenue in FY2018 was primarily attributable to the growth in revenue of optical networking business and industrial and sensing businesses.

Optical Networking Business

The optical networking business recorded revenue of HKD2,103.6 million in FY2018, representing an increase of HKD502.6 million, or 31.4% as compared with that of HKD1,601.0 million in FY2017. The increase was primarily attributable to the growing demand for the optical networking products in both passive and active components.

Industrial and Sensing Businesses

The industrial and sensing businesses recorded revenue of HKD412.8 million in FY2018, representing an decrease of HKD21.3 million, or 4.9% as compared with that of HKD434.1 million in FY2017, attributable to the net effect of (i) sharp decrease of revenue in consumer electronics business; and (ii) significant growth of revenue in industrial and sensing businesses, except for consumer electronics business.

Machine Vision Business

Revenue of HKD43.8 million was recorded in FY2018, representing an increase of HKD11.5 million, or 35.6% as compared with that of HKD32.3 million in FY2017. The rise in revenue in FY2018 was primarily attributable to bolstered sale efforts by the Group.

Automation Solutions Business for E-cigarettes

Revenue of HKD96.2 million was recorded in FY2018, representing an increase of HKD32.6 million, or 51.3% as compared with that of HKD63.6 million in FY2017. The increase in revenue in FY2018 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 FY2018, revenue from the industrial laser business of HKD152.5 million was recorded, representing an increase of HKD29.0 million, or 23.5% as compared with that of HKD123.5 million in FY2017. The revenue rise was primarily due to the components sales for kilowatt-class fiber lasers, as well as the rapid expansion in sales of higher-value added high-power laser modules-laser engines and laser combiners.

LiDAR Business

Revenue of HKD23.6 million was recorded in FY2018, representing an increase of HKD8.2 million, or 53.2% as compared with that of HKD15.4 million in FY2017 which was primary attributable to (i) the rise of revenue from existing customers; and (ii) the revenue generated from a new customer by supplying optical components for LiDAR adopted in ADAS applications.

Consumer Electronics Business

Revenue of HKD96.7 million was recorded in FY2018, representing a decrease of HKD102.6 million, or 51.5% as compared with that of HKD199.3 million in FY2017 which was primary due to the sharp decrease demand of coating of smartphone manufacturers in China.

Gross Profit and Gross Profit Margin

The gross profit in FY2018 was HKD788.0 million, representing an increase of HKD61.5 million, or 8.5%, from the gross profit of HKD726.5 million in FY2017. The higher gross profit was primarily due to the rise in revenue from optical networking businesses and smart manufacturing applications businesses of the Group.

As a percentage of total revenue, gross profit margin decreased to 31.3% in FY2018 as compared with 35.7% in FY2017. The decrease of gross profit margin was the net effect of (i) the gross profit margin of optical networking business decreased to 30.8% in FY2018 as compared with 32.9% in FY2017; (ii) sharp decrease of revenue in consumer electronics business.

Other Gains

Other gains in FY2018 increased by HKD33.8 million to HKD64.2 million, from HKD30.4 million in FY2017, which was primarily due to the net effects of (i) 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 FY2018, the foreign exchange gain was HKD21.4 million as compared with the foreign exchange loss of HKD28.6 million in FY2017; and (ii) the decrease in government grants by HKD7.8 million, from HKD48.8 million in FY2017 to HKD41.0 million in FY2018.

Selling and Marketing Costs

Selling and marketing ("S&M") costs of HKD79.0 million in FY2018 rose by HKD2.8 million, or 3.7%, compared with HKD76.2 million in FY2017. The increase in selling and marketing costs in FY2018 was primarily attributable to the net effects of (i) the increase of the salary costs; (ii) lower freight charges; and (iii) the increase of share options/share awards expenses. However, selling and marketing costs as a percentage of revenue decreased to 3.1% in FY2018 as compared with 3.7% FY2017. The reason was mainly attributable to the higher revenue outweighing the increase in the overall selling and marketing costs.

Salary costs in FY2018 was HKD42.0 million, an increase of HKD11.4 million, or 37.3% compared with HKD30.6 million in FY2017. This increase was primarily attributable to the combined effect of (i) the Group bolstering efforts to hire additional staff for the sales team to seek new business opportunities in the industrial and sensing businesses; and (ii) an increase in salaries.

No freight charges was included as S&M costs in FY2018 as compared with HKD11.1 million in FY2017 due to the classification change to cost of sales with effective of Hong Kong Financial Reporting Standards 15.

Share options/share awards expenses in FY2018 was HKD4.8 million, representing an increase of HKD2.5 million, compared with HKD2.3 million in FY2017. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in FY2018 and FY2017.

Research and Development Expenses

Research and development ("R&D") expenses in FY2018 were HKD247.6 million, HKD16.8 million or 7.3% higher compared with HKD230.8 million in FY2017. 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 share options/share awards expenses; and (iii) the decrease in raw materials consumed in R&D projects. However, R&D expenses as a percentage of revenues decreased to 9.8% in FY2018 as compared with 11.3% in FY2017. This was mainly due to the increase in revenue outweighing the increase in R&D expenses.

The salary costs for R&D engineers was HKD131.1 million, representing an increase of HKD18.5 million, or 16.4% as compared with HKD112.6 million in FY2017. The increase was primarily attributable to the combined effect of (i) the increase in hiring of R&D engineers; and (ii) higher salaries.

Share options/share awards expenses in FY2018 was HKD20.7 million, representing an increase of HKD10.7 million, or 107.0% as compared with HKD10.0 million in FY2017. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in FY2018 and FY2017.

Raw materials consumed in the R&D projects in FY2018 was HKD69.7 million, representing a decrease of HKD9.9 million, or 12.4% as compared with HKD79.6 million in FY2017. The decrease was primarily attributable to the decrease of expenses for purchasing raw materials, especially the completion of research stage of 10 X 10 TOSA & ROSA and 100GbE QSFP28 CWDM4 products.

Administrative Expenses

Administrative expenses in FY2018 were HKD215.6 million, HKD38.5 million or 21.7% higher as compared with HKD177.1 million in FY2017. The increase of administrative expenses in FY2018 was primarily attributable to (i) the increase of the salary costs; (ii) the increase of share options/share awards expenses; and (iii) increase in overall administrative expenses. However, administrative expenses as a percentage of revenue decreased to 8.6% in FY2018 as compared with 8.7% in FY2017. The reason was mainly attributable to the higher revenue outweighing the increase in the overall administrative expenses.

For FY2018, the salary costs was HKD125.5 million, representing an increase of HKD24.0 million, or 23.6% as compared with HKD101.5 million for FY2017. The increase was primarily attributable to an increment in salaries and hiring of new staff.

Share options/share awards expenses in FY2018 was HKD7.6 million, representing an increase of HKD3.1 million, compared with HKD4.5 million in FY2017. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in FY2018 and FY2017.

The other administrative expenses rose in line with growth of the Group such as repair and maintenance, motor vehicle expenses, utilities and rental expenses.

Finance Income/Expenses

Finance income in FY2018 amounted to HKD6.2 million, representing an increase of HKD4.1 million, compared with HKD2.1 million in FY2017. 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 HKD2.3 million in FY2018 as compared with foreign exchange loss of HKD3.1 million in FY2017; and (ii) the decrease in interest income of HKD1.3 million.

Finance expenses in FY2018 amounted to HKD32.4 million, representing an increase of HKD6.4 million, or 24.6% as compared with HKD26.0 million in FY2017. The increase in finance expenses was primarily due to the increase in interest rate of bank borrowings due to decrease of pledged bank deposits for bank borrowings.

Share of Profit of Associates

Share of profit of associates was HKD1.1 million for FY2018, which represents share of results of two associates accounted for using equity method.

The management has reassessed the Company's significant influence over an investee taken account into its successful listing in Taiwan Stock Exchange, there was a change in classification of fair value through profit or loss to investment in an associate in first half of FY2018. Such classification was different from the classification disclosed in 2018 interim report. In addition, there was a new acquisition of another associate in October 2018.

Share of Loss of a Joint Venture

Share of loss of a joint venture was HKD2.2 million for FY2018, which represents an increase of HKD2.2 million compared with HKD0.003 million for FY2017. In addition to an increase in R&D expenses of a joint venture for new R&D project, only 5-month share of result were recorded for the Group's share of loss of a joint venture for FY2017 due to set up of a joint venture in August 2017.

Income Tax Expenses

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

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

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

Income tax expenses in FY2018 amounted to HKD23.9 million, representing a decrease of HKD19.2 million or 44.5% from the income tax expenses of HKD43.1 million in FY2017. The drop in income tax expenses was primarily due to the combined effect of (i) the increase of deductible R&D expenses in FY2018; and (ii) the percentage of R&D costs eligible for additional deduction in the PRC increased in FY2018.

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	
	2018	2017
	HKD'000	*HKD'000*
Adjustment to Measure Non-GAAP Gross Profit		
Gross Profit	**787,992**	726,473
Adjustment Related to Cost of Sales		
Provision/(write-back) for inventory write-down	**4,547**	(323)
Non-GAAP Gross Profit	**792,539**	726,150
Adjustment to Measure Non-GAAP Net Profit*		
Net Profit*	**261,792**	208,867
Adjustment Related to Cost of Sales		
Provision/(write-back) for inventory write-down	**4,547**	(323)
Adjustments to Measure to Operating expenses		
Share options and share awards granted to directors and employees	**42,554**	22,721
Amortization of intangible assets	**13,438**	13,835
Adjustments to Other Gains – net		
Fair value loss/(gain) on derivative financial instruments	**2,723**	(422)
Loss on disposal of a subsidiary	**–**	59
Non-GAAP Net Profit*	**325,054**	244,737
Non-GAAP EPS		
– Basic	**0.43**	0.33
– Diluted	**0.43**	0.31
Gross Profit Margin	**31.3%**	35.7%
Non-GAAP Gross Profit Margin	**31.5%**	35.7%
Net Profit* Margin	**10.4%**	10.3%
Non-GAAP Net Profit* Margin	**12.9%**	12.0%

* Profit attributable to Equity Holders of the Company

Non-GAAP net profit for FY2018 was HKD325.1 million, or HKD0.43 per share, compared with non-GAAP net profit of HKD244.7 million, or HKD0.33 per share, reported for FY2017. Non-GAAP results for FY2018 exclude HKD4.5 million in provision for inventory writedown, HKD42.6 million in share options and share awards granted to directors and employees, HKD13.4 million in amortization of intangible assets and HKD2.7 million in fair value loss on derivative financial instruments. Non-GAAP results for FY2017 exclude HKD0.3 million in write-back for inventory writedown, HKD22.7 million in share options and share awards granted to directors and employees, HKD13.8 million in amortization of intangible assets, HKD0.4 million in fair value gain on derivative financial instruments and HKD0.06 million in loss on disposal of a subsidiary.

PROSPECTS

Going forward, the Group is confident that it will 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 seize yet a greater market share 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 stream of demand for the Group's core products. Unlike 2018, which witnessed a bottoming of the global telecommunications investment cycle, 2019 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.

Industrial and Sensing Businesses

The Group's industrial and sensing businesses, which accounted for 16.4% of total revenue in 2018, has continued to outperform in most sectors. Chief among these business divisions has been LiDAR, which continues to exceed the Group's expectations, as it expands to new markets and new geographies. O-Net, along with 3SP and ITF continues to develop key optical components necessary for the successful deployment of cost-effective and high performance LiDAR solutions.

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.

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 digitalization industries in the coming years and beyond. 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. The Group therefore 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, digitalized and networked manufacturing market.

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

The Group has taken a significant re-organization and cost reduction program in response to the decline of its coating for mobile phone business, i.e. Consumer Electronics division. The operation scale has been reduced to a minimum level in order to avoid similar operation loss as in 2018. The Group believes the division is in a much better situation in terms of operation flexibility and efficiency, which should enable it to address future sharp cyclical downturn of the industry.

To better reflect this business unit's nature, Smart Manufacturing Applications will be renamed as Industrial and Sensing Division.

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, the Company's issued share capital was approximately HKD8.0 million divided into 802,034,240 shares, including 1,190,000 shares pending for cancellation, of HKD0.01 each, and the total equity of the Group was approximately HKD2,247.5 million (31 December 2017: HKD2,033.1 million). The Group had current assets of HKD1,830.4 million and current liabilities of HKD948.3 million and the current ratio was 1.93 times as at 31 December 2018 (31 December 2017: 1.69 times). The Group's gearing ratio (calculated as total borrowings over total equity) was 21.7% at 31 December 2018 (31 December 2017: 32.2%).

As at 31 December 2018, the Group had cash and cash equivalents of approximately HKD341.6 million (31 December 2017: HKD320.7 million). The increase was due to proceeds from pledged bank deposit. The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

PLEDGE ON GROUP ASSETS

As at 31 December, 2018, the Group had bank deposits of HKD65.7 million (31 December 2017: HKD84.9 million) pledged as guarantee for payables to suppliers for purchasing of goods and for bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2018, the Group had contractual capital commitments of approximately HKD4.2 million (31 December 2017: HKD15.9 million). As of 31 December 2018, 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 2018, 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 HKD179.5 million (31 December 2017: HKD240.9 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

The Group's costs and revenues are mainly in US dollar and RMB. The Group 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 2018, the Group had a total of 5,196 employees (31 December 2017: 4,760). The Group's staff costs (including Directors' fees) amounted to HKD714.4 million (31 December 2017: HKD524.3 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 2018, no option was granted (2017: 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. 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 2018. For 2018, 16,230,000 shares were granted to employees of the Group (2017: 3,300,000).

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 resolved to recommend to the shareholders of the Company a final dividend of HKD0.02 (2017: Nil) per share for the year ended 31 December 2018 at the forthcoming annual general meeting of the Company to be held on Friday, 31 May 2019 ("2019 AGM") to the Shareholders whose names appear on the register of members of the Company on Thursday, 6 June 2019, and such dividend will be made on Friday, 21 June 2019. The final dividend will amount to approximately HKD16,027,000 (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Monday, 27 May 2019 to Friday, 31 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2019 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, 24 May 2019.

For determining the entitlement to the final dividend, the register of members of the Company will be closed on Thursday, 6 June 2019, no transfer of shares will be registered on that date. In order to qualify for the proposed final dividend, all transfers of shares accompanies 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 for registration not later than 4:30 p.m. on Wednesday, 5 June 2019.

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

As at 31 December 2018, the Group maintained sufficient funds for the capital investment and operations for the coming year.

MATERIAL EVENT SINCE THE END OF THE FINANCIAL YEAR

On 21 April 2017, O-Net BVI, a wholly-owned subsidiary of the Company, entered into the formal sale and purchase agreement with API in relation to the acquisition by O-Net BVI of the 100% equity interest of 3SP.

On 19 March 2019, the O-Net BVI has entered into a supplementary agreement with API and its sole shareholder to acquire 100% equity interest of API, which holds 100% equity interest of 3SP. Consequently the acquisition of 3SP was completed on the same day.

Save as those mentioned above, there has been no other material event since the end of the financial year.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2018, the Company repurchased 1,602,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD3.19 to HKD3.65 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*
October 2018	291,000	3.29	3.19	952,390.00
December 2018	1,311,000	3.65	3.39	4,567,190.00
	1,602,000			5,519,580.00

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 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 2018.

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 2018, the Company was in compliance with all the relevant code provisions set out in the CG Code except for the deviation as explained below.

Under code provision A.2.1 of the CG Code, the role of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The Company has a CEO, Mr. Na Qinglin, and he currently also performs as the Chairman of the Company. 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 2018.

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 2018 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 2018 before they are tabled for the Board's review and approval and are of the opinion that such report complied with the applicable accounting standards, the Listing Rules, other applicable legal requirements and that adequate disclosures have been made.

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

Hong Kong, 19 March 2019

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.