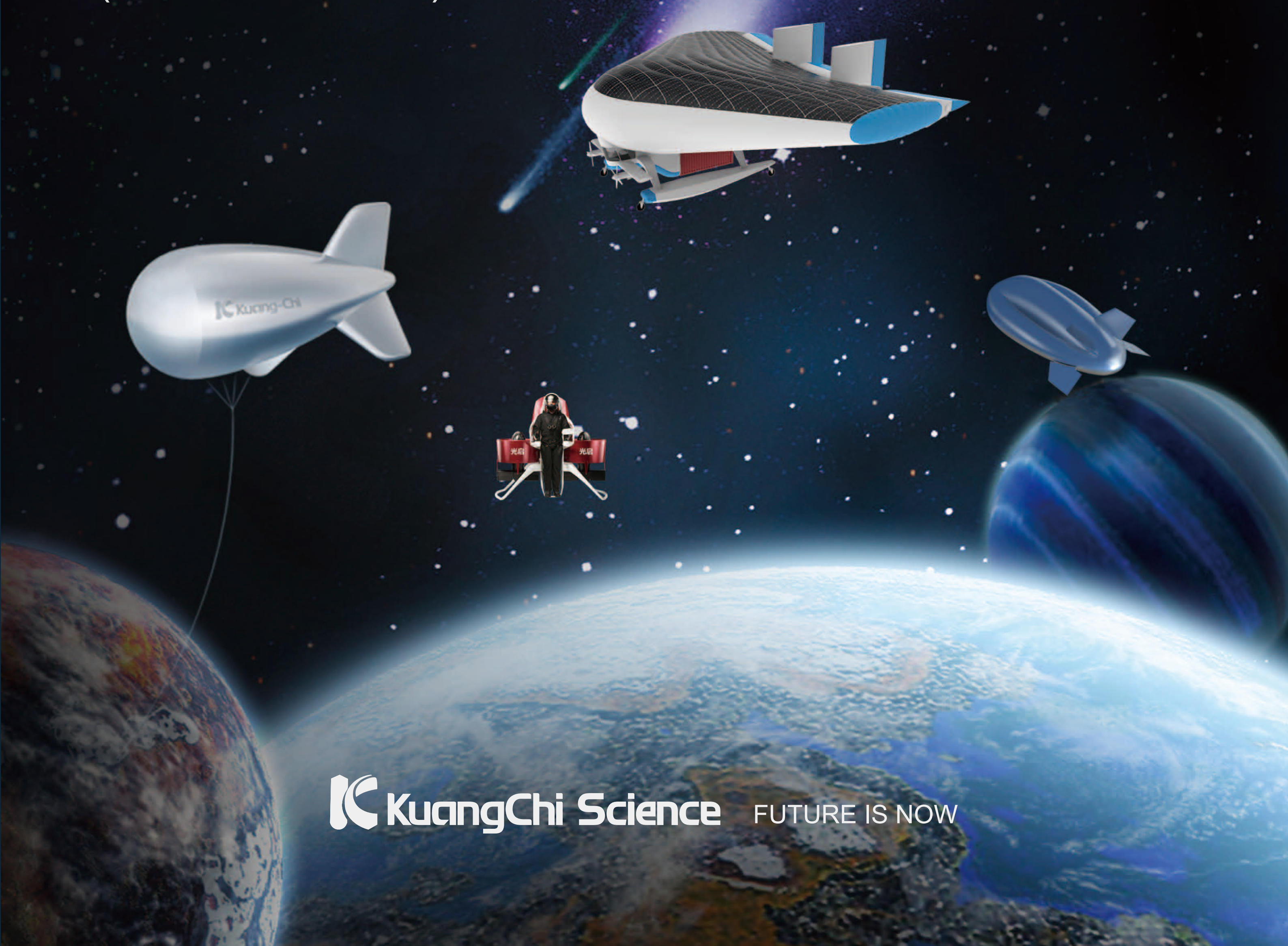
2015

Annual Report

KUANGCHI SCIENCE LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Liu Ruopeng *(Chairman)*
Dr. Zhang Yangyang *(Chief Executive Officer)*
Dr. Luan Lin *(Chief Technology Officer)*
Mr. Ko Chun Shun, Johnson

Independent Non-executive Directors

Dr. Liu Jun
Dr. Wong Kai Kit
Ms. Zong Nan

AUDIT COMMITTEE

Ms. Zong Nan *(Chairman)*
Dr. Liu Jun
Dr. Wong Kai Kit

REMUNERATION COMMITTEE

Dr. Liu Ruopeng *(Chairman)*
Dr. Liu Jun
Dr. Wong Kai Kit

NOMINATION COMMITTEE

Dr. Wong Kai Kit *(Chairman)*
Dr. Zhang Yangyang
Dr. Liu Jun

COMPANY SECRETARY

Mr. Law Wing Hee

AUDITOR

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Bermuda

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Bermuda

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
Bank of Communications Company Limited
Shanghai Pudong Development Bank Co., Ltd.

STOCK CODE

439

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), I hereby present the annual results of KuangChi Science Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2015.

2015 was a critical year for the Company as it successfully leaped into achieving substantive progress. In our in-depth space business, the completion of research and development, test launch, commercial testing, sales and delivery of our disruptive products signifies the business has fully moved forward towards commercialisation. The Group achieved a turnaround from loss. Revenue was HK$354 million, representing an increase of 345% from that of last year. The Group also generated profit before tax of HK$9,777,000, compared to the loss before tax recorded last year. I am truly proud of all members of the Group.

Leveraging on our innovative technologies and strong capability in research and development, we have launched a series of in-depth space products for different altitudes. They include the "Cloud", a high-altitude aerial platform for smart cities; the "Traveller", the first civil near space flying apparatus in the People's Republic of China (the "PRC"); the "manned version of the Traveller", a flying apparatus for space tourism; the "KuangChi Martin Jetpack", the first personal flying vehicle in the world; the "Solar Ship", a solar-powered platform for low-altitude transportation; and the "U-1", a flying apparatus levitated in space. "In-depth space" means levitating everything from the ground to reconstruct the world in a multi-dimensional space, in an attempt to continually expand the living space for human beings. With the existing space, we have intensified our efforts in in-depth developments and devised our plan to tap further into and integrate with various industries and sectors, such as in-depth space + smart city, in-depth space + surveillance, in-depth space + logistics, in-depth space + certification, and in-depth space + transport and tourism. I deeply believe that our disruptive innovative products will be widely used throughout the world along with their accelerating commercialisation.

Moreover, we have made significant breakthroughs in a number of product technologies and we have put our KuangChi technologies into mass production from zero. As innovation is what we embrace, we have set up several KuangChi innovation platforms including the first PRC national key laboratory specialising in metamaterials, the National Technical Committee on Electromagnetic Metamaterial Technology and Product Standardisation, and the KuangChi Postdoctoral Workstation. Since 2011, KuangChi Research Institute has implemented its patent strategy. To date, we together with our parent group have a pool of nearly 3,000 KuangChi patents awarded for our innovative technologies that are characterised by metamaterial technology. We engage high-calibre elites. We foster every KuangChi member to become an innovator and a dreamer. We encourage our KuangChi venture team to pursue their passion and dream of innovation, so as to motivate our KuangChi members to step forward and spare no effort to research and development and innovation.

Human resources is fundamental to innovation and we are changing the innovation of the world

After the evolution over more than one million years, we, as humans, now possess a more complicated brain and improved thinking skills. And we keep evolving physically through intellectual endeavours. We adapt our livings under varying temperatures and environments with clothing, air-conditioning and constructions; we ride on vehicles, trains, airplanes and ships to spur across the ground, the sky and the ocean; we have become the legendary "Thousand Mile Eye" and "Distant Hearing" with our mobile phones, hand-held smart devices and laptops; and we manage to have superb brain functions and obtain unlimited knowledge through computers, internet and cloud platforms. What we presently enjoy are the fruitful results achieved by our ancestors. The inventions and creations of our predecessors empower people to become a group that no specie can rival. Thus, we are in strong confidence that our inventions and creations will also lead to the next boom and bring the next generation for all mankind.

CHAIRMAN'S STATEMENT

Nobody can change the past but anybody can plan for the future. We see a better future ahead with our profound expertise in technology innovation. It is the forecast of KuangChi that in-depth space, spiritual machines and ultimate connection will become the three elements of the matrix. This is what we plan for the future. This is the bright future we bring to everyone through innovation with our wisdom and forces. We are the future planner and dream maker!

Creating "KuangChi Community of Global Innovation" to bring future to the present

We live in a great era when knowledge is highly integrated; disruptive innovation booms; people has the ability to change through technology innovation for a better future; and it is driven by internet big data intelligence. In this great era, we have teamed up with the most visionary and knowledgeable innovators in the world, to establish a disruptive innovative ecosystem, namely the "KuangChi Community of Global Innovation". Currently, the community of global innovation has extended its coverage across the world and it strives to develop as a new organisation that initiates revolutionary breakthroughs, and plays a role of an innovation community that plans, realises and shares the future. We seek to achieve revolutionary breakthroughs under the approach of open and collaborative innovation. We inspire and support innovators to realise their common dreams with our enthusiasm in the pursuit of "one world, one family". We identify and nurture heroic innovators who are competent to become the "world pioneers".

We are in the progress of unprecedented exploration and we are experiencing meaningful time. Our team of innovators is diligently committed to "change the world through innovation" and paying continuous efforts to bring future to the present!

Dr. Liu Ruopeng
Chairman
Hong Kong, 31 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW AND PROSPECTS

The Group is principally engaged in (1) the research and development and manufacture of in-depth space innovative technology products, and the provision of other innovative technology services (the "In-depth Space Business"); (2) the manufacture and trading of paper packaging products and paper gift items and the printing of paper promotional materials (the "Paper Business"); and (3) the property investment. During the year, the Group recorded a revenue of HK$353,831,000, representing an increase of 345% as compared to last year. Gross profit margin was up from 23% to 64%, earnings before interest, tax, depreciation, amortisation, share based payment and impairment loss recognised in respect of goodwill of HK$108,239,000 and profit before tax increased to HK$9,777,000, achieving a turnaround from loss last year. Basic earnings per Share was 0.65 HK cents for the year ended 31 December 2015.

The In-depth Space Business

The Group focuses on the research and development of a variety of disruptive space technologies flying at different altitudes, as well as the provision of comprehensive in-depth space services. The Group's products are combined with metamaterial technologies and are widely used for wide-area internet-of-things networking, optical remote sensing and telemetry, internet access, smart big data collection, innovative smart cities, private network and backbone communications, smart observations, emergency rescue, transportation and space tourism, etc. During the year, revenue generated from the In-depth Business was HK$278,806,000, representing an increase of 2,923%. Of the revenue, the Group's fastest commercialised product, namely the Cloud, accounted for HK$258,885,000. Selling and marketing expenses of HK$19,676,000 and research and development expenses of HK$72,566,000 were incurred for in-depth space products. Administrative expenses including staff cost for the In-depth Business was approximately HK$131,135,000. Together with other revenue and other operating costs, segment profit for the year was approximately HK$83,341,000, achieving a turnaround from segment loss last year.

Significant breakthrough and progress in disruptive in-depth space technology and product commercialisation

The Group is fully devoted in the research and development of a series of disruptive in-depth space technology products, which have made significant breakthrough and progress in commercial application. During the year, the Cloud, a product of space information platform with in-depth space technology applied in smart city industry, was put into commercial operation and underwent the whole operating procedures from test launch, commercial testing, order placement to product delivery. As at 31 December 2015, the Group has signed sales order or strategic cooperation agreement with governments or innovation parks in Guangdong, Guizhou and other provinces in respect of the Cloud information platform, with a total of contracted sales amount of HK$258,885,000.

In December 2015, the city-level Cloud information platform completed its first global commercial flight, marking a substantial step towards the industrialisation of metamaterial technologies in the in-depth space technology sector. The Cloud carries optical remote sensing and wide-area internet-of-things networking with a weight of 400 kg. The optical remote sensing provides high resolution visual images of visible lights and infra-red rays. It is able to run 24/7 and can be applied to sectors such as city road traffic monitoring, inspection of unauthorised building works and wildfire detection. The internet-of-things networking covers areas with a diameter of 60 km and can be applied to the big-data collection and processing of city smart information. The Cloud has successfully established a platform for collection, distribution and processing of city-level three dimensional in-depth information, which can be widely used in sectors such as city planning management, ecological environment monitoring, meteorological forecasts and monitoring, disaster forecasts and assessment, marine life monitoring, wireless emergency communication, regional security and surveillance, and refined resource discovery. The emergency version of the Cloud may also be equipped with aerospace multifunctional high resolution ground monitoring facilities. It has been used for the rescue on scene of a landslide incident occurred in Guangming New District of Shenzhen. As the Cloud is currently the Group's fastest commercialised product, the Group will deepen its market penetration by optimising its application and greater marketing efforts.

MANAGEMENT DISCUSSION AND ANALYSIS

In December 2015, the first public flight show of KuangChi Martin Jetpack was held in the PRC. KuangChi Martin Jetpack is the world's first ever commercialised and industrialised single-person stand-up flying apparatus, which uses a petrol engine with two ducted fans at both sides to provide lift. It had been named as one of the 50 best inventions of 2010 by Time Magazine. KuangChi Marin Jetpack is compact in size, easy to operate and has a hover mode. All these features enable it to fly at altitudes up to 1,500 m in the sky with flexibility. It can be applied to sectors such as medical emergency, fire rescue, travel and leisure, and personal transport vehicle. It is designed to have maximum flying speed of 80 km/hr, payload weight up to 120 kg and endurance of 30-45 minutes. On 6 December 2015, KuangChi Ironman Club was established by the Group. On the even date, the Group entered into a letter of intent regarding the sale of 100 jetpacks and 20 training jetpacks. At the Dubai Air show held in November 2015, a memorandum of understanding was entered into with the fire department of Dubai in respect of the sale of 20 jetpacks and 2 training jetpacks. The Group has adopted a series of approaches and measures on the research and development, design and commercial operation of the KuangChi Martin Jetpack product, so as to ensure product delivery. The Group plans to expand its market reach worldwide.

In July 2015, the Group launched its first generation of U-1 levitation station, which is a flying apparatus made by the Group by applying its accumulated experience in the design of flying apparatus, adoption of new energy and development of technologies such as artificial intelligence, as well as its creativity. With the core design concept embodied in the U-1 levitation station, it has great hovering and payload performance with endurance up to 10 hours. The product can be customised in design with dimensions ranging from 5 m to 15 m. It can carry equipment with weights ranging between 10 kg and 100 kg. U-1 levitation station is applicable to city security and defence, public surveillance, broadcasting of sports events, marine applications, boundary patrol, forest preservation and automated ranching, etc. Its advantage of prolonged floating time improves the entire emergency response operation. Going forward, many industries will enjoy new services and experience brought by U-1 levitation station.

In June 2015, the first-ever Traveller commercial near space platform successfully took off and completed the related commercial testing in Ashburton of New Zealand. The Traveller flies at high altitude and has long endurance. It has properties including high payload capacity, high adaptive capability to space environment and high reliability. It is made of novel metamaterials characterised by low-density, high strength, high helium barrier, resistance to UV radiation and anti-ozone erosion. Coupled with advanced flight control strategy, it is able to float in near space for a prolonged period of time. The Traveller commercial near space platform flies 20 km above sea level. It can be equipped with facilities for both air-to-ground and air-to-air real-time high-definition monitoring, relay communication, positioning and navigation, near space scientific experiments, manned space tourism, etc. As proved by the commercial testing, the Traveller commercial near space platform has a high-speed communication coverage reaching 160,000 km^2, and a maximum distance of maritime surveillance exceeding 440 km. Its successful first flight signifies KuangChi Science's near space exploration technology has ranked top in the world.

Product production and sales models for the In-depth Space Business

The Group's In-depth Space Business adopts a sales-driven production model based on the characteristics of products and the market, under which a production plan is formulated at the beginning of every year according to the orders on hand and annual sales planning, and appropriate adjustments are made for any deliveries pursuant to any additional orders received during the year. Products of the business are characterised with great value, high technological content and high customisation level. In the process of production, the Group develops and designs all systems to be installed in the products based on customers' specifications, and sets production standards for all parts of the products according to the master design program. Once the customised design is finished, the core production process is to be handled by internal professional staff with self-owned production equipment. Some non-core processes will be outsourced.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Cloud was the main product of the Group for sales. In view of its high value, leading position in terms of innovation, customised functionalities and complexity in operation and maintenance, the Group uses direct marketing as a means of selling the Cloud. Marketing department is responsible for market development while sales department is responsible for product sales. Product production and delivery are undertaken by Shenzhen KuangChi Space Technology Co., Limited (深圳光啟空間技術有限公司) and Shenzhen KuangChi Dream Technology Limited (深圳光啟夢想科技有限公司), both are subsidiaries of the Company. They are also responsible for post-sales services including product operation and maintenance as well as application and development.

Creating a community of global innovation through global acquisitions and consolidation

During the year, the Group implemented a comprehensive layout for its development in the In-depth Space Business by way of consolidating top-notch companies in upstream and downstream industries, and made three material acquisition and industry consolidation initiatives. The Group attempts to create a KuangChi community of global innovation with an aim to bring future to the present.

In September 2015, the Group acquired SkyX, an Israeli company which is engaged in the research and development of drones. Pursuant to the relevant investment agreement, the Group shall subscribe, in stages, for up to approximately 66.8% of the issued ordinary shares of SkyX. As at 31 December 2015, the Group has subscribed for 42.5% of SkyX's shares. The drone designed by SkyX is a type of unmanned aerial vehicles that support long-haul cruising at high speed. It is equipped with automatic battery charger for higher efficiency in long-haul cruising and lower cost of repair and maintenance. It is the first flying apparatus in the world that has the ability to fly horizontally and take off and land vertically, both without a human pilot onboard, and can be charged contactlessly. After took-off, the flying apparatus is able to change its configuration to immediately transform into a fixed-wing aircraft to cruise at high speed. SkyX drone can fly at a maximum speed of 60-80km/hr for long-haul cruising. Its maximum endurance reaches two hours. The landing system and charging system will then be automatically activated. SkyX drone can be widely used for surveillance, oil and gas pipelines investigation, high voltage cables investigation, and search and rescue operations.

In February 2016, the Group subscribed for the entire convertible securities of Martin Aircraft Company Limited ("MACL") and fully converted them into new ordinary shares of MACL. Also, the Group exercised 90% of options for the allotment and issuance of swap shares. The Group is entitled to exercise the remaining 10% of options before 22 August 2017. The allotment and issuance of new ordinary shares and swap shares have already been completed. The Group currently holds approximately 52.0% of the enlarged issued share capital of MACL. In February 2015, MACL successfully listed on the Australian Securities Exchange. Moving forward, the Group will continue to apply the core technologies to MACL in order to persistently improve its product performance. The Group will also pursue greater efforts on market development.

On 3 April 2015, the Group entered into an investment agreement with Solar Ship Inc. ("Solar Ship") to subscribe, in stages, for up to approximately 54.42% of the issued ordinary shares of Solar Ship. In May 2015, the Group subscribed for approximately 32.58% of the enlarged share capital of Solar Ship and acquired an option to further subscribe for the share capital of Solar Ship up to approximately 54.42% of the then enlarged share capital of Solar Ship. Solar Ship is in the progress of developing a low-cost transport platform that deploys aircrafts with hybrid engines powered by solar energy and electricity, initially focusing on markets including Canada, the PRC, Africa, Australia and the Caribbean regions. To provide transportation service for remote areas, solar energy, wind energy and helium will be used. The Group will team up with Solar Ship to develop transport platforms, rescue stations in remote areas and advanced communication technologies, so as to tap into the international market.

MANAGEMENT DISCUSSION AND ANALYSIS

Innovative platform building and talent nurturing

In terms of innovative platform building, the Ministry of Science and Technology of the PRC has commissioned KuangChi to set up a National Key Laboratory specialising in metamaterials and electromagnetic modulation technology. This laboratory focuses on the scientific research on metamaterials and electromagnetic modulation technology and gives technological support to the product and business development of the Group's In-depth Space Business. The innovative platforms built by KuangChi provide favourable environment and strong support for the research and development of source technologies. Moreover, the Ministry of Human Resources and Social Security of the PRC and the National Postdoctoral Management Committee has approved KuangChi to establish a postdoctoral workstation for nurturing talents with postdoctoral qualification in the relevant industry fields.

Management believes that the Group has made significant breakthrough and progress in (1) the research and development of in-depth space technology and product commercialisation; (2) production and sales models; (3) strategic collaboration and resource integration with top-notch companies in upstream and downstream industries; and (4) innovative platform building and talent nurturing.

Looking forward, the Group will intensify its efforts to develop in-depth space technology, products and business for space flying at different altitudes; enhance performance and accelerate global commercialisation of its products; globally consolidate top-notch companies in upstream and downstream industries; and integrate the most advanced innovative space technologies in the world. In doing so, the Group will be able to make prompt response to the prevailing market demand by designing and developing products with tremendous market potential. The Group will also keep endeavouring its best to create better ways of living for all mankind by bringing future to the present.

Paper Business

During the year, the revenue contributed by the Paper Business was approximately HK$74,669,000 (nine months period ended 31 December 2014: HK$69,737,000). The increase of revenue was mainly due to twelve months result were covered in current year while comparative figures only represented nine months result. The printing and packaging industry was still affected by the weakening global demand and fierce competition. The management have thoroughly implemented cost control measures and internal budget management with intention to improve the performance of the Paper Business.

With reference to the valuation reports issued by an independent external valuer, the directors have made a further impairment loss of approximately HK$13,501,000 (nine months period ended 31 December 2014: HK$34,160,000) in respect of the carrying amount of the goodwill, which was arising from the acquisition of the Paper Business during the year ended 31 March 2013. As a result, the segment loss of approximately HK$33,205,000 was recorded (nine months period ended 31 December 2014: HK$36,131,000).

Although there is slow recovery in some of the regions, e.g. U.S.A., the world economy still faces a prolonged year of sluggish growth. The Euro zone is still suffering from high unemployment rate and low inflation as well as the expectation of a slower growth in the PRC. Management will continue to seek for more stringent cost control measures to keep the profitability level, including but not limiting to streamline and simplify the production process or outsource certain processes to sub-contractors. Management expects the printing and packaging industry will most likely remain weak and unpredictable in the coming future.

Despite the difficulties in the current operating environment for the Paper Business, the Group will also continue to improve the efficiency and output quality, maintain good relationships with existing customers and at the same time will promote its products and services to new customers to broaden its customer base.

MANAGEMENT DISCUSSION AND ANALYSIS

Property Investment

The Group holds the properties for investment purpose with a view that it can establish recurring rental income, while capture any possible future capital appreciation. During the year, leasing income of approximately HK$356,000 (nine months period ended 31 December 2014: HK$503,000) was recognised. During the nine months period ended 31 December 2014, the Group has entered into sales and purchase agreements with independent third parties to dispose an investment property. The disposal was completed in November 2014. A gain on change in fair value of investment property of approximately HK$600,000 is recognised in the year (nine months period ended 31 December 2014: HK$108,000). As a result, a segment profit of approximately HK$923,000 incurred (year ended 31 March 2014: HK$65,000).

The Group will closely monitor the conditions of the property market and prepare to respond swiftly and take advantage of the market adversities to seize upon further suitable investment opportunities to provide tremendous value to shareholders.

Other Results

During the year, the Group has acquired the land use right in Dongguan City to build a technology research centre to support the In-depth Space Business. During the year, the Group also placed fixed deposits and pledged deposits, interest income earned on the deposits was approximately HK$49,743,000 (period ended 31 December 2014: HK$6,015,000).

During the year, the Company has granted replacement and new share options to directors and employees of the Group, the relevant share-based payment expenses for the year was approximately HK$59,792,000 (period ended 31 December 2014: HK$18,138,000). During the year, the Company has recognised the financial advisory fee in respect of the acquisition of Solar Ship Inc. and their services for approximately HK$8,036,000. Details of the acquisition and the relevant financial advisory fee were disclosed in the announcement of the Company dated 7 April 2015. Net exchange loss of approximately HK$36,214,000 was recognised during the year (period ended 31 December 2014: HK$12,362,000) and it was mainly due to the significant depreciation of RMB to HKD in 2015.

The management would like to provide further information on the announcement dated 30 March 2016 in relation to the revision on positive profit alert:

The sales transaction represented a sale of “Cloud” to one city government in China (the “Customer”) and was from in-depth space service business (the “Sales Transaction”). The sales agreement (the “Sales Agreement”) with a total amount of approximately HK$142,000,000 (excluding Value Added Tax) was signed in December 2015 after few months’ negotiation between the Company and the Customer (the “Sales Negotiation”). The Customer is totally independent to the Company and its connected persons.

Since the in-depth space service business is a new business in the market and there is no company providing similar services before, the management understood the importance of seeking professional advice on the accounting treatment of sales transaction from this new business to prevent any bias. The management and the auditor communicated regularly. On 11, 15 and 28 January 2016, the management met with the auditor to communicate the details of the Sales Transaction and to also discuss the corresponding audit arrangement. It is in the management view based on the audit progress up to 5 February 2016, the Sales Transaction could be recognised in 2015. Accordingly, approximately HK$142,000,000 revenue was recognised and approximately HK$97,800,000 profit was result.

The Board believed that the Company’s positive profit alert announcement of 5 February 2016 is accurate and complete in all material respects and not be misleading as required under Rule 2.13(2) based on all information available at that time.

MANAGEMENT DISCUSSION AND ANALYSIS

On 25 February and 9 March 2016, the management met with the auditor to discuss on the audit progress of the Sales Transaction and additional supporting documents required. Since the certain additional supporting documents required input from the Customer, our management need to put a lot of effort to communicate with the Customer and explain the reason for providing such additional audit evidence, additional time is required to provide those audit evidence. On 30 March 2016, the auditor concluded that based on the audit evidence obtained it was insufficient to support that the Sales Transaction meet all the revenue recognition criteria as at 31 December 2015. The management announced the revision on positive profit alert on the same day. The Company has taken all appropriate and sufficient steps to publish the inside information announcement in a timely manner. The Board believed that the auditor should request audit evidence and communicate with the management in earlier stage to prevent any revision on the profit alert next time.

The management believed that the evidence provided to auditor should be sufficient to support that the Sales Transaction fulfill all the revenue recognition criteria. However, for prudence sake, the management decided to recognise the revenue generated from the Sales Transaction in 2016. The accounting treatment of the Sales Transaction is in accordance with the relevant requirements of accounting standards in Hong Kong.

The Sales Transaction was not recorded as sales transaction in the management accounts of the Company for the year ended 31 December 2015.

CAPITAL STRUCTURE

On 29 May 2014, the Company and New Horizon Wireless Technology Limited ("New Horizon") and other investors (the "Subscribers") entered into a subscription agreement ("Subscription Agreement"), pursuant to which the Company has conditionally agreed to allot and issue, a total of 4,350,000,000 subscription shares, comprising 1,666,666,668 new ordinary shares and 2,683,333,332 new preferred shares (including 1,341,666,666 Tranche A preferred shares and 1,341,666,666 Tranche B preferred shares) at an issue price of HK$0.08 per subscription share. The aggregate gross subscription price amounts to approximately HK$348,000,000. The total net proceeds was approximately HK$327,000,000, of which net proceeds of approximately HK$123,000,000 was received on 22 August 2014 (in respect of fully paid ordinary shares of the Company issued and partly paid preferred shares of the Company issued). During the year ended 31 December 2015, the Company received approximately HK$204,000,000 from the Subscribers to pay off the remaining balance of the partially paid preferred shares.

On 17 April 2015, the Company received notices from all of the Subscribers to convert all of their respective Tranche A preferred shares into 1,341,666,666 ordinary shares of the Company.

On 15 September 2015 and 24 December 2015, the Company received notices from New Horizon and REORIENT Global Limited (one of the Subscribers) to convert all of their respective Tranche B preferred shares into 912,333,333 and 53,666,667 ordinary shares of the Company respectively. Following conversion of the above Tranche B preferred shares, the Company has 375,666,666 fully paid Tranche B preferred shares outstanding.

Use of proceeds

The total proceeds from the fund raising activities, including the subscriptions completed on 22 August 2014 and 29 September 2014 respectively, during the nine months period ended 31 December 2014 were approximately HK$1,888,401,000, of which approximately HK$204,000,000 had not been received and approximately HK$244,927,000 was utilised according to the intended use and the change of the intention as specified in the annual report of year 2014. As at 31 December 2014, approximately HK$1,439,474,000 was unutilised.

MANAGEMENT DISCUSSION AND ANALYSIS

Below is an analysis for the use of proceeds from the previous fund raising activities during the year:

Intended use of proceeds	Unutilised proceeds as at 1 January 2015 *HK$'000*	Utilised during the year *HK$'000*	Unutilised proceeds as at 31 December 2015 *HK$'000*
Acquisition of land site and construction of manufacturing facilities and expansion of production capacity for the In-depth Space Business	1,059,140	(255,531)	803,609
Research and development for products and expenses for the In-depth Space Business	226,032	(72,566)	153,466
General working capital	197,892	(197,187)	705
Global merger and acquisition of In-depth space services industry and products	160,410	(117,719)	42,691
Less: Proceeds not yet received	(204,000)	204,000	–
	1,439,474	(439,003)	1,000,471

During the year, approximately HK$625,117,000 was used as specified in the annual report of year 2014, and approximately HK$204,000,000 proceeds was received from the subscribers of the Tranche A preferred shares and Tranche B preferred shares. During the year, the Group has paid approximately HK$255,531,000 to acquire a land use right and purchase additional plant and equipment for the In-depth Space Business, approximately HK$72,566,000 on research and development costs and approximately HK$197,187,000 for general working capital including staff costs, legal fees and financial advisory fees in relation to global acquisitions, cost of building new inventories, repayment for other payables and prepayments for the Group's expenses. Approximately HK$106,085,000 was used to subscribe the share capital of Solar Ship and HK$11,634,000 was used to purchase preferred shares of SkyX Limited.

The unused proceeds up to 31 December 2015 were approximately HK$1,000,471,000. The management will use the remaining proceeds as intended including for the use for merger and acquisition as discussed above.

The management closely monitors the cash level of the Company to balance the return on capital and the liquidity level of the Group. Since 31 December 2015, the Group has further paid for approximately AUD23,000,000 (approximately HK$122,082,000) for the acquisition of MACL. The Group will subscribe for the new shares of Zhejiang Longsheng Automotive Parts Stock Limited Corporation with consideration of approximately RMB300,000,000 (equivalent to approximately HK$358,000,000), and the proposed acquisition of Solar Ship Inc. would require about additional CAD25,000,000 (equivalent to approximately HK$156,158,000). The acquisition of SkyX Limited will require for approximately additional US$3,500,000 (equivalent to approximately HK$27,125,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, the total shareholders' funds of the Group amounted to approximately HK$2,174,998,000 (31 December 2014: HK$1,718,241,000), the total assets of approximately HK$2,457,909,000 (31 December 2014: HK$1,936,751,000) and the total liabilities of approximately HK$282,911,000 (31 December 2014: HK$218,510,000).

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2015, the Group had bank balances and cash of approximately HK$1,228,556,000 (31 December 2014: HK$1,485,818,000), and the Group had pledged deposits of approximately HK$143,280,000 (31 December 2014: 187,575,000). The gearing ratio as of 31 December 2015, defined as the percentage of the total interest bearing debt, including bank borrowings of approximately HK$142,397,000 (31 December 2014: HK$140,000,000), convertible debenture of approximately HK$5,569,000 (31 December 2014: Nil) and obligations under finance leases of approximately HK$233,000 (31 December 2014: HK$1,633,000), to net asset value, was approximately 6.81% (31 December 2014: 8.24%).

The Group's business operations and investments are in PRC, Hong Kong and New Zealand. Bank Balances and cash as at 31 December 2015 denominated in local currency and foreign currencies mainly included HK$64,651,000, RMB601,286,000, NZD12,553,000, USD81,397,000 and CAD3,003,000 respectively. All the outstanding balances of borrowings and obligations under finance leases are denominated in HKD. Other than described above, most of the assets, liabilities and transactions of the Group are primarily denominated in HKD and RMB. The Group has not entered into any instruments on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

INVESTMENT POSITION AND PLANNING

Acquisition of MACL

On 19 December 2014, the Company and MACL entered into an investment agreement ("MACL Investment Agreement"), pursuant to which upon MACL fulfilling certain conditions (the "MACL Conditions"), the Company will (i) acquire up to 15,000,000 ordinary shares of MACL at an issue price of AUD0.40 per share from certain shareholders of MACL; (ii) subscribe for 40,813,636 new ordinary shares in MACL at an issue price of AUD0.40 per share; (iii) subscribe for convertible securities (the "Convertible Securities") that are convertible into 57,500,000 new ordinary shares of MACL at an issue price of AUD0.40 per share; and (iv) subject to the completion of the subscription of the new ordinary shares per (ii) above, the Company is to incorporate a company ("HKCo") together with MACL in which the Company will contribute AUD2,000,000 (equivalent to approximately HK$12,371,000) and will hold 51% of interest. At any time prior to 22 August 2017, the Company has the swap right (the "Swap Right") to sell its 51% equity interest in HKCo to MACL which shall be satisfied by way of allotment and issuance of 89,250,000 MACL shares.

Pursuant to the MACL Investment Agreement, as at 31 December 2014, the Company paid an interest bearing deposit on escrow (the "Deposit on Escrow") for approximately AUD21,000,000 (equivalent to approximately HK$133,277,000), where the deposit would be returned to the Company should MACL not meet the conditions set out in the Investment Agreement.

On 23 February 2015, the MACL Conditions were fulfilled. Accordingly, the Company subscribed for 40,813,636 new shares of MACL and acquired 14,950,000 existing shares of MACL for an aggregate amount of approximately AUD22,305,000 (equivalent to approximately HK$135,200,000). The Deposit on Escrow was released upon the completion of the acquisition.

After the above acquisition and subscription of shares in MACL, the Company holds approximately 22.83% of the MACL's issued share capital as at the acquisition date. The HKCo was incorporated on 12 March 2015 and both the Company and MACL has contributed AUD2,000,000 into the HKCo (approximately HK$24,742,000 in total). As at 31 December 2015, the Company had the right to acquire but had not acquired the Convertible Securities and had the right to exercise but had not exercised the Swap Right.

The acquisition allows the Group to benefit from the aviation and flying technology of MACL for the development of the civil near space flying apparatus and the wifi broadcasting technology.

MANAGEMENT DISCUSSION AND ANALYSIS

Acquisition of Solar Ship Inc. ("Solar Ship")

On 3 April 2015, the Company and Solar Ship entered into an investment agreement, pursuant to which upon Solar Ship fulfilling certain conditions (the "Solar Ship Conditions"), the Company will subscribe for 79,070 new common shares in Solar Ship, representing approximately 32.58% of the outstanding common shares in Solar Ship for consideration of CAD17,000,000. Also on the same day, the Company and Solar Ship entered into an option agreement, pursuant to which the Company was granted the option ("Option") exercisable by the Company during the period from the completion of Solar Ship Conditions to 15 October 2016 (Toronto time) to subscribe for 116,279 additional common shares in Solar Ship for consideration of CAD25,000,000 (equivalent to approximately HK$156,158,000), which will result in the Company holding approximately 54.42% of the outstanding common shares in Solar Ship. The dilution effect of the convertible debenture and outstanding share options issued by Solar Ship is insignificant to the Company's shareholding in Solar Ship.

On 29 May 2015, the Solar Ship Conditions were fulfilled. As a result, the Company subscribed for 79,070 new common shares in Solar Ship at the subscription money of CAD17,000,000 (equivalent to approximately HK$106,085,000), representing 32.58% of the outstanding common shares of Solar Ship. The Company has the right to exercise, but has not exercised, the Option.

The acquisition allows the Group to benefit from Solar Ship's aviation and flying technology for the development of in-depth Space services.

Investment in SkyX

On 21 September 2015, the Company and SkyX Limited ("SkyX") entered into a preferred shares purchase agreement (the "PSP Agreement"), pursuant to which the Company agreed to acquire 738,916 preferred share of SkyX for consideration amounted to US$1,500,000 and upon SkyX fulfilling certain conditions (the "SkyX Conditions"), the Company will further acquire an additional 1,268,634 preferred shares of SkyX for an additional cash consideration amounting to US$3,500,000. In addition, immediately following the satisfaction of all SkyX condition and ending 24 months thereafter, the Company shall have the right to purchase all remaining issued and outstanding shares of SkyX at a consideration equal to a valuation of SkyX at that time ("Buyout Option"). Furthermore, the Company and the founding shareholder of SkyX ("Original Shareholder") shall each have an option, pursuant to which the Original Shareholder may require the Company to purchase, or the Company may require the Original Shareholder to sell certain shares of SkyX (as adjusted for any share split, reverse share split, issuance of bonus shares, reclassification or similar transaction) held by the Original Shareholder upon fulfilling of the SkyX Conditions. The directors of the Company are of the opinion that the derivatives contained in the PSP Agreement is insignificant as at 31 December 2015 as SkyX is only at the start-up phase and the future cash flows cannot be reliably measured. Furthermore, the fair value of the Buyout Option is insignificant as the exercise price will be based on the SkyX valution at the date.

The Company currently holds 738,916 preferred shares of SkyX which are currently convertible into 738,916 ordinary shares of SkyX, subject to anti-dilution adjustments. All preferred shares of SkyX acquired to be acquired by the Company pursuant to the PSP Agreement will be convertible into ordinary shares of SkyX upon subscription. The Company will hold 42.5% of the ordinary share capital of SkyX when all the 738,916 preferred shares are converted based on the number of ordinary shares in issue as at 31 December 2015. Upon the Company's purchase and conversion of the additional 1,268,634 preferred shares of SkyX upon Satisfaction of Skyx Conditions, the Company's shareholding in SkyX will be approximately 66.8%, based on the number of ordinary shares in issue as at 31 December 2015.

Saved as disclosed above and disclosed in the section headed "Other Results" under "Performance Review and Prospects", the Group did not have any other significant investment and there are no other material acquisition or disposal of subsidiaries and associated company during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENT AFTER THE REPORTING YEAR

On 29 February 2016, the Company subscribed for the entire convertible securities in MACL and fully converted them into new ordinary shares of MACL for AUD23,020,000 (equivalent to HK$129,988,000). In addition, the Company also exercised 90% of the option for the allotment and issue of Swap Shares. The Company has the right to exercise the remaining 10% of the option prior to 22 August 2017.

After the allotment and issuance of new ordinary shares and Swap Shares of MACL, the Company holds approximately 52% of the enlarged issued share capital of MACL which, together with HKCo, continues to remain as a subsidiary of the Group. There is no net cash flows impact on the Group arising from these equity transactions.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2015, certain assets of the Group were pledged to secure banking facilities granted to the Group and obligation under finance lease as follows:

	31 December 2015 ***HK$'000***	31 December 2014 *HK$'000*
Plant and equipment under finance lease	**4,038**	4,543
Pledged deposit	**143,280**	187,575
	147,318	192,118

CONTINGENT LIABILITIES

As at 31 December 2015, the Group had no significant contingent liabilities (31 December 2014: Nil).

CAPITAL COMMITMENT

	31 December 2015 ***HK$'000***	31 December 2014 *HK$'000*
Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of the acquisition of:		
Plant and equipment	**13,108**	18,317
A company	**–**	190,380
	13,108	208,697

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2015, the Group had approximately 980 employees. The Group provides competitive remuneration packages to employees with the share option scheme and the restricted shares award scheme. The Group also provides attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Liu Ruopeng, aged 32, is currently the chairman and executive Director of the Company and also the chairman of remuneration committee of the Company. Dr. Liu joined the Group in August 2014. Dr. Liu has been the president of Kuang-Chi Institute of Advanced Technology, a private not-for-profit research organisation which focuses on science research since 2010. Dr. Liu has been the director of the State Key Laboratory of Metamaterial Electromagnetic Modulation Technology since 2012, and vice chairman of the National Technical Committee of Standardization for Electromagnetic Metamaterial Technology and Products since 2013. Dr. Liu is executive vice chairman of the Youth Committee of the All-China Federation of Returned Overseas Chinese, deputy to the Guangdong Provincial People's Congress, deputy to the Shenzhen Municipal People's Congress, vice chairman of Shenzhen Federation of Industry and Commerce, a commissioner for recommending young talents to Shenzhen, a member of the Standing Committee of Shenzhen Youth Federation, a member of the Shenzhen-Hong Kong Youth Consulting Committee for Authority. Dr. Liu obtained a collective award of "Guangdong Youth May 4th Medal" in 2011. Dr. Liu was awarded "China Youth May 4th Medal", the top honour for young Chinese people, in 2014. Dr. Liu obtained a master's degree and a doctorate degree from Duke University, the United States in 2009 and a bachelor's degree from Zhejiang University, China in 2006. Dr. Liu has been appointed as an executive director of Martin Aircraft Company Limited, a company listed on the Australian Securities Exchange (security code: MJP), with effect from 24 February 2015. Dr. Liu has extensive experience in research and development of advanced technologies and business network in relation to metamaterial, near space and other innovative technology industries. Dr. Liu has made outstanding contributions to business management, the system innovation of new-type research institutions and the construction of the Global Community of Innovation.

Dr. Zhang Yangyang, aged 36, is currently the chief executive officer and executive Director of the Company and also a member of nomination committee of the Company. Dr. Zhang joined the Group in August 2014. Dr. Zhang has been the executive vice president of Kuang-Chi Institute of Advanced Technology since 2010. Dr. Zhang has been vice president of Shenzhen Young Science and Technology Talents Association since 2012. Dr. Zhang obtained a collective award of "Guangdong Youth May 4th Medal" in 2011. Dr. Zhang obtained a doctorate degree from the University of Oxford, the United Kingdom in 2008, and a master's degree and a bachelor's degree from the Northeastern University, China in 2004 and 2002 respectively. Dr. Zhang has been appointed as an executive director of Martin Aircraft Company Limited, a company listed on the Australian Securities Exchange (security code: MJP), with effect from 24 February 2015. Dr. Zhang has extensive experience in research and development of advanced technologies and business network in relation to metamaterial, near space and other innovative technology industries. Dr. Zhang has extensive experience in business management and team management.

Dr. Luan Lin, aged 36, is currently the chief technology officer and executive Director of the Company. Dr. Luan joined the Group in August 2014. Dr. Luan has been the vice president of Kuang-Chi Institute of Advanced Technology since 2010. Dr. Luan obtained a collective award of "Guangdong Youth May 4th Medal" in 2011. Dr. Luan obtained a doctorate degree from Duke University, the United States in 2010 and a master's degree from Peking University, China in 2004. Dr. Luan has been appointed as an executive director of Martin Aircraft Company Limited, a company listed on the Australian Securities Exchange (security code: MJP), with effect from 21 August 2015. Dr. Luan has extensive experience in research and development of advanced technologies and business network in relation to metamaterial, near space and other innovative technology industries. Dr. Luan has extensive experience in business management and team management.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ko Chun Shun, Johnson, aged 64, is currently an executive Director of the Company. Mr. Ko joined the Group in August 2014. Mr. Ko has extensive experience in a variety of activities, including manufacturing, securities trading, international trade, electronics and the renewable energy industry. He also has extensive experience in corporate finance, corporate restructuring and mergers and acquisitions. Mr. Ko is an executive director of REORIENT Group Limited (stock code: 376); chairman and executive director of Varitronix International Limited (stock code: 710); and the deputy chairman and an executive director of Frontier Services Group Limited (stock code: 500), the shares of which are listed on the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Liu Jun, aged 51, is currently an independent non-executive Director of the Company and also a member of the audit committee, nomination committee and remuneration committee of the Company. Dr. Liu joined the Group in August 2014. Dr. Liu was appointed a professor of statistics at Harvard University in 2000 and has written research papers and publications about Markov chain Monte Carlo algorithms. Dr. Liu received a number of awards including The Committee of Presidents of Statistical Societies 2002 Presidents' Award in 2002 and the Morningside Gold Medal in Mathematics in 2010. Dr. Liu was elected as a fellow of the Institute of Mathematical Statistics in 2004 and the American Statistical Association in 2005. Dr. Liu obtained a doctorate degree from The University of Chicago, the United States of America in 1991.

Dr. Wong Kai Kit, aged 42, is currently an independent non-executive Director of the Company and also the chairman of nomination committee and a member of audit committee and remuneration committee. Dr. Wong joined the Group in August 2014. Dr. Wong was appointed a professor at the Department of Electronic and Electrical Engineering, University College London, United Kingdom in October 2015. Dr. Wong had other teaching and research roles in universities and education institutes in Hong Kong, the United States of America and the United Kingdom. Dr. Wong is an academician of The Institute of Electrical and Electronics Engineers Inc. ("IEEE") and The Institution of Engineering and Technology Inc. ("IET"), and he is also on the editorial board of IEEE Wireless Communications Letters, IEEE Communications Letters, Journal of Communications and Networks, and IET Communications. He is the senior editor for the IEEE Communications Letters. Dr. Wong obtained a doctorate degree, a master's degree and a bachelor's degree from the Hong Kong University of Science and Technology, Hong Kong, in 2001, 1998 and 1996 respectively.

Ms. Zong Nan, aged 34, is currently an independent non-executive Director of the Company and also the chairman of audit committee. Ms. Zong joined the Group in October 2015. Ms. Zong has over 9 years of experience in the field of financing, auditing and accounting. Before joining the Company, Ms. Zong worked for one of the big 4 international accounting firms as its transaction services manager and was responsible for financial and audit work for numbers of mergers and acquisition projects and prior to that, Ms. Zong has worked in audit and assurance services of another big 4 accounting firm for a number of years and was mainly responsible for the audit work for initial public offering projects and other financial due deligence works. Ms. Zong obtained her master's degree in Finance from the University of Lancaster in 2005 and her bachelor's degree in Economics from China Agricultural University in 2003. Ms. Zong is currently a member of the American Institute of Certified Public Accountants and the Chartered Institute of Management Accountants (level 1).

Note:

The interests of Directors in shares of the Company, if any, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as at 31 December 2015 are disclosed in the section headed "Directors' and Chief Executives' Interests in Shares" of the Directors' Report of this annual report.

COMPANY SECRETARY

Mr. Law Wing Hee, aged 33, is the chief financial officer and company secretary of the Company. Mr. Law is responsible for the financial management and reporting, and company secretarial functions of the Group. Mr. Law graduated from the University of Hong Kong with a Bachelor Degree in Business Administration in Accounting and Finance. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Chinese Institute of Certified Public Accountants. Mr. Law has extensive experiences in the field of accounting, auditing and financial management.

DIRECTORS' REPORT

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries include i). provision of in-depth space services and other innovative technology business; ii). manufacture and sale of paper packaging products and paper gift items and the printing of paper promotional materials; and iii). property investment.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

During the year, the Group's five largest suppliers and the largest supplier accounted for approximately 41% and 18% respectively of the Group's total purchases including consultancy fee in relation to research and development expenses.

During the year, the Group's five largest customers accounted for approximately 81% of the Group's total sales. The largest customer accounted for approximately 43% of the Group's total sales.

Mr. Ng Man Chan, an executive director of the Company until 27 February 2015, had beneficial interest in one of the five largest customer of the Group during the year. All transactions between the Group and the customer concerned were carried out on normal commercial terms. Details of the transactions are disclosed in the section headed "Continuing Connected Transactions and Connected Transactions" on page 23. Mr. Ng Man Chan resigned as executive director of the Company with effect from 27 February 2015.

Save at disclosed above, none of the directors, their associates or any shareholders of the Company, which to the knowledge of the directors, own more than 5% of the Company's issued share capital has a beneficial interest in any of the Group's five largest suppliers and customers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated financial statements on page 42.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2015.

DIRECTORS' REPORT

BUSINESS REVIEW

Overview

A business review, particulars of important events that have occurred since the end of the year and future development of the Group are set out in the section headed "Management Discussion and Analysis" on pages 5 to 14 of this annual report, which forms part of this directors' report.

Key financial and business performance indicators

The key financial and business performance indicators comprise gross profit margin; EBITDA, share based payment and impairment loss recognised in respect of goodwill; and debt to equity ratio. Details of other key performance indicators are discussed below.

The Group's gross profit margin, based on gross profit for the year to revenue, was 64% (2014: 23%) for the year ended 31 December 2015. The significant surge was mainly due to commencement in revenue recognition from the sales of "Cloud" space information platform in the second half year of 2015. The Group will continue to promote the "Cloud" in domestic and international cities and build up a big-data network that is based on space information platform.

EBITDA, share based payment and impairment loss recognised in respect of goodwill represented earnings before interest, taxes, depreciation and amortisation, share based payment and impairment loss recognised in respect of goodwill. The Group's EBITDA, share based payment and impairment loss recognised in respect of goodwill increased to HK$108,239,000 (2014: loss of HK$96,182,000) reflecting the rise in profit from in-depth space business segment driven by the sales of "Cloud" space information platform, excluding those major non-cash items.

The level of debt (including obligations under finance lease and bank borrowings) to equity of the Group was at a healthy level of 0.07 times as at 31 December 2015 (2014: 0.08). The Group will continue to safeguard its capital adequacy position, manage key risks cautiously and set prudent yet flexible business development strategies to strike a balance between business growth and prudent risk management.

Environmental policies

The Group is committed to the long term sustainability of the environment and communities in which it operates and is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials.

Health and Safety

The Group provided health and safety information to raise employees' awareness of occupational health and safety issues. Risk assessments of workstations are performed regularly. Improvement and maintenance of tools, office equipment are performed to cope with the needs and demands of employees. Cleaning of workstations and office equipment are carried out at regular intervals in order to provide a safe, hygienic and healthy working environment to all staff.

Employees are also expected to take all practical measures to ensure a safe and healthy working environment, in complying with their defined responsibilities and applicable laws.

DIRECTORS' REPORT

Environment Protection

Conservation of the environment remains a key focus for the Group, the conscious minimising in consumption of resources and adoption of environmental best practices across the Group's businesses underlie its commitment to conserving and improving the environment. The Group complies with environmental legislation, encourages environmental protection and promotes its awareness to all employees of the organization.

The Group commits to the principle and practice of recycling and reducing. To help conserve the environment, it implements green office practices such as re-deployment of office furniture as far as possible, encourage use of recycled paper for printing and copying, double-sided printing and copying, reduce energy consumption by switching off idle lightings, air conditioning and electrical appliances.

The Group will review its environmental practices from time to time and consider implementing further ecofriendly measures, sustainability targets and practices in the operation of the Group's businesses to embrace the principles of reduce, recycle and reuse, and further minimise our already low impact on the natural environment.

Community Involvement

The Group supports and encourages staff to actively participate in a wide range of charitable events outside working hours, to raise awareness and concern for the community, and to inspire more people to take part in serving the community.

Compliance with laws and regulations

The Group continues to update its compliance and risk management policies and procedures, and the senior management are delegated with the continuing responsibility to monitor compliance with all significant legal and regulatory requirements. These policies and procedures are reviewed regularly. As far as the Board of Directors and management are aware, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

Principal risks and uncertainties

A number of factors may affect the results and business operations of the Group, some of which are inherent risks and some are from external sources. Major risks are summarized below.

(1) Industry risk

Our business operates in an industry that is subject to changes in market conditions, technological advancements, developing industry standards and changing customers' needs and preferences for our new products and/or services. If we are unable to respond to these changes promptly or unable to continually enhance our existing products and market new products in a timely manner, our performance may be adversely affected. We continued to invest significant resources in research and development of the in-depth space business to ensure we retain the leadership in the business.

(2) Macroeconomic environment

The business environment in near future was challenging due to a number of factors such as uncertainty over the global economy, the PRC economy entering a "new normal". Slower consumer spending may result in reduced demand for our products, reduced sales price, order cancellations, lower revenue and margins. It is therefore important that the Group is aware of any such changes of economic environment and adjusts its business plan under different market conditions.

DIRECTORS' REPORT

(3) Foreign Exchange Rate Risk

The majority of the Group's assets and sales business are located in the PRC. Most of our sales transactions are denominated in Renminbi while our financial statements are presented in Hong Kong Dollar. The depreciation of Renminbi will result in lower sales and asset value of the Group. The Group currently has minimal exposure to foreign currency risk, but continues to monitor the relative foreign exchange positions of the mix of its assets and liabilities. When appropriate, hedging instruments including forward contracts, swaps and currency loans would be used to manage the foreign exchange exposure. The foreign currency risk is managed and monitored on an on-going basis by senior management of the Group.

Relationships with key stakeholders

The Group's success also depends on the support from key stakeholders which comprise employees, customers and suppliers.

Employees

Employees are regarded as the most important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

Customers

The Group maintains a good relationship with its customers. It is the Group's mission to provide excellent customer service in in-depth space business and other businesses whilst maintaining long term profitability, business and asset growth. Various means have been established to strengthen the communications between the customers and the Group in the provision of excellent customer service. A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality.

Suppliers

Sound relationships with key suppliers of the Group are important in supply chain, meeting business challenges and regulatory requirements, which can derive cost effectiveness and foster long term business benefits. We have developed long-standing relationships with a number of our suppliers and take great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 45 and other details of the reserves of the Company are set out in note 42 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2015, the Company had no reserves available for distribution. However, the Company's share premium account, in the amount of approximately HK$2,096,146,000, may be distributed in the form of fully paid bonus shares.

FIXED ASSETS

Details of movements in the Group's plant and equipment, investment properties and prepaid lease payments during the year are set out in notes 15, 17 and 21 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 30 to the consolidated financial statements.

DIRECTORS' REPORT

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years/period is set out on page 128.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

EQUITY-LINKED AGREEMENT

On 4 November 2015, the Company entered into a subscription agreement with each of Sky Asia Holdings Limited ("Sky Asia") and Sheung Ching Holding Limited ("Sheung Ching"), pursuant to which Sky Asia and Sheung Ching conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue 395,000,000 and 200,000,000 new ordinary shares respectively in cash at the subscription price of HK$2.32 per Share.

Completion of the subscriptions is conditional upon satisfaction of the following conditions:

(i) the Stock Exchange granting approval for the listing of, and permission to deal in, the subscription shares;

(ii) the independent shareholders/shareholders (as applicable) approving at the special general meeting the subscription agreements and all the transactions contemplated thereunder;

(iii) all the necessary consents and approvals in respect of the subscriptions,the subscription agreements and the transactions contemplated thereunder having been obtained; and

(iv) any other approval as may be required by applicable laws, rules or regulations for the subscriptions having been obtained.

The Company intended to apply the net proceeds from the subscription for financing potential mergers and acquisitions, capital expenditures and general working capital. For details, please refer to the section headed "REASONS FOR THE SUBSCRIPTIONS AND USE OF PROCEEDS" of the "Letter from the Board" in the Circular dated 3 December 2015 issued by the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SHARES ISSUED

On 17 April 2015, the Company received notices from all of the subscribers of Tranche A Preferred Shares to convert all of their respective Tranche A Preferred Shares into 1,341,666,666 Ordinary Shares of the Company. On 20 April 2015, the Company issued 1,341,666,666 ordinary shares in respect of the conversion.

On 15 September 2015 and 24 December 2015, the Company received notices from New Horizon Wireless Technology Limited and REORIENT Global Limited to convert all of their respective Tranche B Preferred Shares into 912,333,333 and 53,666,667 Ordinary Shares of the Company respectively. On 17 September 2015 and 30 December 2015, the Company issued 912,333,333 and 53,666,667 ordinary shares respectively.

For more details, please refer to "Capital Structure" in the section headed "Management Discussion and Analysis" on page 10 of this annual report.

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year.

The Company has taken out and maintained directors' liability insurance throughout the year, which provides appropriate cover for the Directors.

DIRECTORS AND SERVICE CONTRACTS

The directors during the year and up to the date of this report were:

BOARD OF DIRECTORS

Executive Directors

Dr. Liu Ruopeng *(Chairman)*
Dr. Zhang Yangyang *(Chief Executive Officer)*
Dr. Luan Lin *(Chief Technology Officer)*
Mr. Ko Chun Shun, Johnson
Mr. Ng Man Chan[Δ]

Independent Non-executive Directors

Dr. Liu Jun
Dr. Wong Kai Kit
Ms. Zong Nan[#]
Mr. Lau Man Tak[Δ1]

Δ Resigned on 27 February 2015
\# Appointed on 1 October 2015
Δ1 Resigned on 30 September 2015

In accordance with Bye-laws 87 of the Company's Bye-laws, Dr. Liu Ruopeng and Dr. Wong Kai Kit will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Bye-laws 86(2), Ms. Zong Nan will retire by rotation at the forthcoming annual general meeting and, being eligible, offer herself for re-election.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and senior management of the Company are set out on pages 15 to 16.

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed under the section of "Continuing Connected Transactions, Connected Transactions and Other Related Party Transactions", no contracts of significance in relation to the Group's business to which the Company, its holding company, or any of its subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS, CONNECTED TRANSACTIONS AND OTHER RELATED PARTY TRANSACTIONS

Continuing Connected Transactions

During the year, the Group had the following continuing connected transactions:

Printing Master Agreement

On 11 November 2014, a master agreement ("Master Agreement") was entered into between Sky Will Printing & Packaging (Holdings) Limited and New Spring Label & Packaging Limited ("New Spring Label") for the provision of the printing and production of paper packaging and promotional products and materials ("Services") for the three years ending 31 December 2017. Since Mr. Ng Man Chan ("Mr. Ng") was an executive Director of the Company until 26 February 2015 and New Spring Label is beneficially owned as to 20% by Mr. Ng and as to 30% by the spouse of Mr. Ng, the transactions contemplated under the Master Agreement constitute continuing connected transactions under the Listing Rules.

Pursuant to the approval obtained at the special general meeting of the Company held on 19 January 2015, the annual caps for the provision of the Services under the Master Agreement for the three years ending 31 December 2017 were HK$30 million for each year respectively.

During the year ended 31 December 2015, the Group provided Services to New Spring Label amounted to approximately HK$15,748,000 (nine months ended 31 December 2014: HK$21,537,000).

Financial Services Agreement

On 11 May 2015, the Company and REORIENT Group Limited ("RGL") entered into a financial services agreement (the "Financial Services Agreement") pursuant to which the Group may from time to time engage RGL and/or any of its associates to provide services including brokerage, share placing and underwriting, asset management, financial advisory and corporate finance services for a term commencing from the date of obtaining the independent shareholders' approval to 31 December 2017.

The Company appointed REORIENT Financial Markets Limited ("RFML") as its financial adviser to provide the advisory services in respect of the entering into of the Financial Services Agreement.

Mr. Ko Chun Shun, Johnson ("Mr. Ko"), an executive Director, is the controlling shareholder of RGL and RFML is awholly-owned subsidiary of RGL. Each of RGL and RFML is an associate of Mr. Ko and thus transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company under the Listing Rules; and the engagement of RFML to provide the FA Services constitutes a connected transaction of the Company under the Listing Rules.

RFML has been providing financial advisory services to the Company for a number of transactions since 13 June 2014. Due to the historical connection and the cooperation relationship between the Group and RGL Group, the Company was of theview that RFML was familiar with the business operations of the Group and it is beneficial to enter into the Financial Services Agreement, as these transactions had facilitated and would continue to facilitate the overall business operations and development of the Group's business. In addition, transactions such as share placements and/or other corporate finance transactions may need to be conducted within a very tight timeframe. The need to obtain approval from independent shareholders on each occasion when there is a pending transaction may slow down or even limit the Group from seizing such business opportunities as they arise and would be detrimental to the interest of the Group. Further, RGL Group will be encouraged to allocate more resources to initiate more business opportunities for the Group which in turn would result in more expedient and efficient services to the Group when compared to those services provided by independent third parties.

As the applicable percentage ratios in respect of the proposed annual caps in relation to the transactions under the Financial Services Agreement exceed 25%, the Financial Services Agreement and the proposed annual caps for the three years ending 31 December 2017 are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DIRECTORS' REPORT

Pursuant to the approval obtained at the special general meeting of the Company held on 10 August 2015, the annual caps for the provision of the financial services under the Financial Services Agreement for the three years ending 31 December 2017 were HK$60 million for each year respectively.

No service was provided by RGL and RFML to the Group under the Financial Services Agreement since 11 May 2015.

The Directors (including the Independent Non-Executive Directors) have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; and

(3) according to the agreements governing them on terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group above in accordance with Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to Hong Kong Stock Exchange.

Connected Transactions

During the year, the Group has the below connected transactions:

KC Subscription in Longsheng

On 25 March 2015, Kuangchi Space Technology Company Limited (the "KCST"), a wholly owned subsidiary of the Company, and Zhejiang Longsheng Automotive Parts Stock Limited Corporation (浙江龍生汽車部件股份有限公司) (stock code: 002625.SZ) ("Longsheng") entered into a subscription agreement (the "KC Subscription Agreement"), pursuant to which Longsheng conditionally agreed to issue, and the KCST conditionally agreed to subscribe for 41,958,041 new shares of Longsheng at the consideration of RMB300 million (equivalent to approximately HK$375 million).

Longsheng will focus on the development of the smart structure and vehicle equipment in terms of intelligence, energy conservation and safety enhancement for the use in road transport and also the rail transit sector. The functions of these devices and equipment can be extended if they are connected to the internet, it enables the users to real time remote control the vehicles including the equipment installed in, perform traffic monitoring service and also provide big-data collection service and analysis. The Group focuses on disruptive spaces technology and services and its Cloud being able to provide Wi-Fi telecommunication, ground monitoring service and fly over remote areas. The Cloud can provide a practicable solution to allow the smart structure and vehicle equipment accessing the internet with minimum delay time to enable their online functions. The Directors considered that the smart structure and vehicle equipment will complement the current business of the Group.

Through this investment and the future possible cooperation between the Group and Longsheng, the Directors considered Longsheng would provide an opportunity for the Group to further penetrate the potential customers in the auto parts industry in the PRC.

DIRECTORS' REPORT

The Company received a letter dated 16 June 2015 from the Stock Exchange that the Stock Exchange exercised its discretion under Rule 14A.20 of the Listing Rulesto deem Longsheng as a connected person in respect of the subscription under the KC Subscription Agreement (the "KC Subscription"). Therefore, the KC Subscription would constitute a connected transaction under Rule 14A.25 of the Listing Rules, and the Company is required to comply with the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules for the KC Subscription.

KC Subscription was approved by independent shareholders pursuant to the special general meeting of the Company held on 10 August 2015.

Longsheng FA Services

The Company appointed RFML as its financial adviser to provide financial advisory services in respect of the transactions contemplated under the KC Subscription Agreement (the "FA Services").The Company agreed to pay HK$130,000 as remuneration for the FA Services.

RFML had been providing financial advisory services to the Company for a number of transactions since the subscription of new ordinary shares and new preferred shares as announced by the Company on 13 June 2014. The Company was of the view that RFML was familiar with the business operations of the Group and the engagement of RFML as its financial adviser in respect of the KC Subscription was beneficial to the Group.

Mr. Ko is the controlling shareholder of RGL and RFML is awholly-owned subsidiary of RGL. RFML is an associate of Mr. Ko and thus a connected person to the Company. The appointment of RFML to provide the FA Services constitutes a connected transaction for the Company.

Since Mr. Ko became a connected person to the Company in August 2014, the Company has engaged RFML as its financial adviser in respect of (i) the Group's restricted share award scheme; (ii) the subscription of new ordinary shares of the Company under general mandate; (iii) the renewal of certain existing continuing connected transactions; and (iv) the investment in Martin Aircraft Company Limited, since August 2014 with a total service fees amounting to approximately HK$30.2 million (the "Previous Engagements"). Under Rule 14A.81 of the Listing Rules, the Previous Engagements and the engagement in respect of the FA Services have to be aggregated and treated as if they were one transaction. The Previous Engagements and the engagement in respect of the FA Services, on an aggregate basis, amounted to connected transaction which were only subject to the reporting and announcement requirements and exempt from independent shareholders' approval requirements under Chapter 14A of the Listing

Sky Asia Subscription

On 4 November 2015, the Company and Sky Asia Holdings Limited ("Sky Asia") entered into a subscription agreement (the "Sky Asia Subscription Agreement") pursuant to which Sky Asia conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue 395,000,000 new Shares in cash at the Subscription Price of HK$2.32 per Share.

Sky Asia is wholly owned by 深圳光啟合眾科技有限公司（"Kuang-Chi Hezhong"）35.09% equity interest of which is held by Dr. Liu Ruopeng, an executive Director and the Chairman of the Company. Dr. Liu Ruopeng is a connected person of the Company and Kuang-Chi Hezhong therefore is an associate under Chapter 14A of the Listing Rules. Accordingly, the Sky Asia Subscription Agreement constitute a non-exempt connected transaction for the Company underthe Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company intended to apply the net proceeds from the subscription for financing potential mergers and acquisitions, capital expenditures and general working capital. For details, please refer to the section "REASONS FOR THE SUBSCRIPTIONS AND USE OF PROCEEDS" of the "Letter from the Board" in the Circular dated 3 December 2015 issued by the Company.

DIRECTORS' REPORT

Solar Ship FA Services

On 3 April 2015, the Company appointed RFML as its financial adviser to provide financial advisory services in respect of the transactions contemplated under the acquisition of Solar Ship for an aggregate financial advisory fee of approximately HK$8,000,000.

RFML had been providing financial advisory services to the Company from time to time since 13 June 2014. The Company was of the view that RFML is familiar with the business operations of the Group and the engagement of RFML as its adviser to, among others, approach Solar Ship on behalf of the Company in relation to the investment, assist the Company in the negotiation with Solar Ship and advise the Company on the implication of the Listing Rules regarding the investment, was beneficial to the Group.

Mr. Ko is the controlling shareholder of RGL and RFML is a wholly-owned subsidiary of RGL. RFML is an associate of Mr. Ko and thus a connected person to the Company. The appointment of RFML as the Company's financial adviser constituted a connected transaction for the Company. Based on the applicable percentage ratios, the appointment of RFML as the Company's financial adviser constitutes a connected transaction of the Company that is only subject to the reporting and announcement requirements and exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Other Related Party Transactions

Save as disclosed above, the other related party transactions as disclosed in note 40 to the consolidated financial statements are de minimis transactions that are exempted from announcement and/or shareholders' approval under Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions entered into by the Group during the year ended 31 December 2015.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2015, the following director or chief executive of the Company or his associates had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

Name of Director	Number of Shares held Corporate interests	Number of underlying Shares held Personal interest	Number of underlying Shares held Family interests	Number of underlying Shares held Corporate interests	Total	Approximately percentage of total issued Shares
Dr. Liu Ruopeng ("Dr. Liu")	3,353,000,000(L) *(note 2)*	–	3,000,000(L) *(note 3)*	–	3,356,000,000(L)	58.74%
	1,059,666,667(S) *(note 4)*	–	–	–	1,059,666,667(S)	18.55%
Mr. Ko Chun Shun Johnson ("Mr. Ko")	130,777,778(L) *(note 5)*	–	–	125,222,222(L) *(note 6)*	256,000,000(L)	4.48%
Dr. Zhang Yangyang ("Dr. Zhang")	–	23,000,000(L) *(note 7)*	–	–	23,000,000(L)	0.40%
Dr. Luan Lin ("Dr. Luan")	–	17,800,000(L) *(note 8)*	–	–	17,800,000(L)	0.31%
Dr. Liu Jun	–	80,000(L)	–	–	80,000(L)	0.001%

Notes:

1. "L" represents long position in Shares/underlying Shares and "S" represents short position in Shares.

2. This represents

   (i) the interests in 2,958,000,000 shares of the Company held by New Horizon Wireless Technology Limited ("New Horizon"), being a wholly-owned subsidiary of Wireless Connection Innovative Technology Limited which is owned as to 51% by Kuang-Chi Innovative Technology Limited and as to 49% by Shenzhen Kuang-Chi Hezhong Technology Limited. Kuang-Chi Innovative Technology Limited is a subsidiary of Shenzhen Dapeng Kuang-Chi Technology Limited, which is in turn a subsidiary of Shenzhen Dapeng Kuang-Chi Lianzhong Technology Limited Liability Partnership of which Dr. Liu is the controlling shareholder, and Dr. Liu is the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology Limited. Accordingly, Dr. Liu is deemed to be interested in the same number of shares of the Company held by New Horizon; and

   (ii) the interests in 395,000,000 shares of the Company held by Sky Asia. Sky Asia is wholly owned by Shenzhen Kuang-Chi Hezhong Technology Limited, 35.09% equity interest of which is held by Dr. Liu. Accordingly, Dr. Liu is deemed to be interested in the same number of shares of the Company held by Sky Asia.

3. This represents the interests in the share options of the Company held by Ms. Huang Weizi ("Ms. Huang"), the spouse of Dr. Liu.

4. This represents a share charge given by New Horizon in favour of Ping An Bank Co, Ltd. ("Ping An Bank") over 1,059,666,667 Shares owned by New Horizon.

5. This represents the interests in 130,777,778 Shares held by Starbliss Holdings Limited ("Starbliss"). Starbliss is ultimately wholly owned by Mr. Ko.

DIRECTORS' REPORT

6. This represents the interests in 125,222,222 preferred shares of the Company held by Starbliss.

7. This represents interests in the share options of the Company held by Dr. Zhang.

8. This represents interests in the share options of the Company held by Dr. Luan.

Save as disclosed above, as at 31 December 2015, no interests or short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2015, the following shareholders had interests, directly or indirectly, or short positions in the shares and underlying shares of the Company would fall to be disclosed to the Company and the Stock Exchange under provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximately percentage of total issued Shares
Ms. Huang	Beneficial owner and interest of spouse	3,353,000,000(L) *(note 2)*	3,000,000 *(note 3)*	3,356,000,000(L)	58.74%
		1,059,666,667(S) *(note 4)*	–	1,059,666,667(S)	18.55%
New Horizon	Beneficial owner	2,958,000,000(L)	–	2,958,000,000(L)	51.77%
		1,059,666,667(S)	–	1,059,666,667(S)	18.55%
Wireless Connection Innovative Technology Limited	Interest of controlled corporation	2,958,000,000(L)	–	2,958,000,000(L)	51.77%
		1,059,666,667(S)	–	1,059,666,667(S)	18.55%
Shenzhen Dapeng Kuang-Chi Technology Limited	Interest of controlled corporation	2,958,000,000(L)	–	2,958,000,000(L)	51.77%
		1,059,666,667(S)	–	1,059,666,667(S)	18.55%
Shenzhen Dapeng Kuang-Chi Lianzhong Technology Limited Liability Partnership	Interest of controlled corporation	2,958,000,000(L)	–	2,958,000,000(L)	51.77%
		1,059,666,667(S)	–	1,059,666,667(S)	18.55%
Shenzhen Kuang-Chi Hezhong Technology Limited	Interest of controlled corporation	2,958,000,000(L)	–	2,958,000,000(L)	51.77%
		1,059,666,667(S)	–	1,059,666,667(S)	18.55%
Kuang-Chi Innovative Technology Limited	Interest of controlled corporation	2,958,000,000(L)	–	2,958,000,000(L)	51.77%
		1,059,666,667(S)	–	1,059,666,667(S)	18.55%

DIRECTORS' REPORT

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Number of underlying Total	Approximately percentage of total issued Shares
Ping An Bank *(note 5)*	Person having a security interest in Shares	1,059,666,667(L)	–	1,059,666,667(L)	18.55%
Ping An Insurance (Group) Company of China Ltd.	Interest of controlled corporation	1,059,666,667(L)	–	1,059,666,667(L)	18.55%
World Treasure Global Limited *(note 6)*	Beneficial owner	638,981,013(L)	–	638,981,013(L)	11.18%
Central Faith International Ltd.	Interest of controlled corporation	842,981,013(L)	–	842,981,013(L)	14.75%
Sky Asia *(note 7)*	Beneficial owner	395,000,000(L)	–	395,000,000(L)	6.91%
Mr. Ye Cheng	Interest of controlled corporation	151,025,889(L)	187,833,333(L) *(note 8)*	338,859,222(L)	5.93%

Notes:

1. "L" represents long position in Shares/underlying Shares and "S" represents short position in Shares.

2. This represents the interest in the shares of the Company held by New Horizon and Sky Asia. Ms. Huang, being the spouse of Dr. Liu, is deemed to be interested in the same number of Shares held by New Horizon and Sky Asia.

3. This represents the interests in 3,000,000 share options held by Ms. Huang.

4. This represents the share charge given by New Horizon in favour of Ping An Bank over 1,059,666,667 Shares owned by New Horizon.

5. 50.2% of equity interest of Ping An Bank is held by Ping An Insurance (Group) Company of China Ltd.

6. World Treasure Global Limited is a wholly owned subsidiary of Central Faith International Ltd.

7. Sky Asia is wholly owned by Shenzhen Kuang-chi Hezhong Technology Limited, 35.09% of equity interest of which is held by Dr. Liu.

8. This represents the interests in the preferred shares of the Company held by Mr. Ye Cheng through Cutting Edge Global Limited and Lucky Time Global Limited.

Save as disclosed above, as at 31 December 2015, the Company was not aware of any other person (other than the director or chief executive of the Company) who had an interest, directly or indirectly, or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' REPORT

SHARE OPTION SCHEME AND RESTRICTED SHARE AWARD SCHEME

Share Option Scheme

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 31 July 2012, a share option scheme (the "Scheme") was adopted by the Company.

The purpose of the Share Option Scheme is to enable the Company to provide incentive to participants in recognition of their contribution to the Group. The directors of the Company may offer to grant any employee or director of the Company or any adviser, consultant, agent, contractor, customers and supplier of any member of the Group or whom the Board in its sole discretion considers eligible for the scheme on the basis of his or her contribution to the Group.

The total number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 10% of the shares in issue unless approval from the Company's shareholders has been obtained. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each individual in any twelve-month period up to and including the date of grant shall not exceed 1% of the shares in issue at the date of grant unless approval from Company's shareholders has been obtained.

The directors have discretion to set a minimum period for which an option has to be held and the option period shall not exceed 10 years from the date of acceptance of option. HK$1 is payable on acceptance of an option within 21 days from the date of grant.

The exercise price shall be determined by the directors of the Company, and shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The Share Option Scheme will remain valid for a period of 10 years commencing on 31 July 2012.

As at the date of this report, the total number of option available for issue under the scheme is 433,836,445 shares. Other than the share options granted on 26 August 2014 and 30 September 2015 as mentioned below, no other option was granted under the scheme up to the period end 31 December 2015.

DIRECTORS' REPORT

Save as disclosed below, none of the directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

Category of participant	Date of Grant	Exercise price *HK$*	Exercisable period [(2)]	Outstanding as at 1 January 2015	Granted during the year	Forfeited during year	Outstanding as at 31 December 2015
Directors							
Dr. Zhang Yangyang	26.8.2014	1.604	30.9.2015–31.12.2017[(3)]	15,000,000	–	–	15,000,000
Dr. Luan Lin	26.8.2014	1.604	30.9.2015–31.12.2017[(3)]	9,900,000	–	–	9,900,000
Dr. Zhang Yangyang	30.9.2015	1.604	30.9.2015–29.9.2019[(3)]	–	8,000,000	–	8,000,000
Dr. Luan Lin	30.9.2015	1.604	30.9.2015–29.9.2019[(3)]	–	7,900,000	–	7,900,000
Sub-total				24,900,000	15,900,000	–	40,800,000
Employees							
Ms. Huang Weizi[(1)]	26.8.2014	1.604	30.9.2015–31.12.2017[(3)]	3,000,000	–	–	3,000,000
Other employees	26.8.2014	1.604	30.9.2015–31.12.2017[(3)]	39,847,000	–	(210,000)	39,637,000
Other employees	30.9.2015	1.604	30.9.2015–29.9.2019[(3)]	–	54,100,000	–	54,100,000
Sub-total				42,847,000	54,100,000	(210,000)	96,737,000
Total				67,747,000	70,000,000	(210,000)	137,537,000

(1) Ms. Huang Weizi is the spouse of Dr. Liu Ruopeng, an executive Director of the Company.

(2) Vesting of the share options is conditional upon the achievement of certain performance targets as set out in the respective offer letters.

(3) Commencing from the first, second and third anniversaries of the date of grant of the options, the relevant grantee may exercise up to 33%, 33% and 34% respectively of the options granted.

The value of options granted during the year ended 31 December 2015 is approximately HK$46,545,000. The details of the value of the options are set out in note 32 to the financial statements.

Restricted Share Award Scheme

Under the restricted share award scheme ("RSA Scheme") approved and adopted by the shareholders in general meeting of the Company on 10 December 2014, the Company may grant restricted shares to participants including directors and full-time or part-time employees of the Company or any of its subsidiaries as determined by the Share Award Committee ("SA Committee").

The purpose of the RSA Scheme is to recognise and motivate the contribution of the participants and to provide them with a direct economic interest in attaining the long-term business objectives of the Company. Pursuant to the rules of the RSA Scheme, the SA Committee may, from time to time, at its absolute discretion select any participant after taking into account, among other things, the performance of the relevant participants and/or their contributions to the Group as it deems appropriate for participation in the RSA Scheme as a selected participant. The SA Committee shall determine the number of existing Ordinary Shares to be purchased or new Ordinary Shares to be issued as restricted shares granting to the selected participants. Pursuant to the rules of the RSA Scheme, existing Ordinary Shares shall be purchased by an appointed trustee, and/or new Ordinary Shares may be allotted and issued to the trustee, to hold on trust for the participants until such restricted shares are vested.

DIRECTORS' REPORT

During the year ended 31 December 2015, no restricted shares were granted by the Company. During the year ended 31 December 2015, no restricted shares were purchased nor issued by the Company for the purposes of the RSA Scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme and the restricted share award scheme as mentioned above, at no time during the year ended 31 December 2015 was the Company or its subsidiaries, or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors of the Company. The Audit Committee has adopted terms of reference which are in line with the Corporate Governance Code. The Audit Committee has reviewed the audited results for the year ended 31 December 2015 and agreed with the accounting treatment adopted. The Audit Committee is satisfied with the Group's internal control procedure and financial reporting disclosures.

AUDITOR

The consolidated financial statements have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

Deloitte Touche Tohmatsu were appointed as auditors of the Company on 13 November 2014 following the resignation of SHINEWING (HK) CPA Limited.

On behalf of the Board

Dr. Liu Ruopeng
Chairman and Executive Director

Hong Kong, 31 March 2016

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report of the Group for the year ended 31 December 2015.

CORPORATE GOVERNANCE PRACTICES

The Board acknowledges the importance of the highest standards of corporate governance as the Board believes that effective corporate governance practices are fundamental to enhance the shareholders' value and safeguard the interests of the shareholders. Accordingly, the Company has adopted sound corporate governance principles that emphasis an effective internal control and accountability to all shareholders.

The Board is responsible for performing the corporate governance functions with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "CG Code"). During the year under review, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Company's code of conduct, and the Company's compliance with the Code Provision and disclosure in this Corporate Governance Report.

The Company has complied with the CG Code during the year under review.

THE BOARD

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic decisions and performances. The senior management was delegated the authority and responsibilities by the Board of the day-to-day management and operations of the Group. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management.

All directors have full and timely access to all relevant information in relation to the Company as well as the advice and services of the company secretary, if and when required, with a view ensuring that the Board procedures and all applicable rules and regulations are followed.

There are established procedures for directors to seek independent professional advice for them to discharge their duties and responsibilities, where appropriate at the Company's expenses.

CORPORATE GOVERNANCE REPORT

Composition

The Board currently comprises four executive directors and three independent non-executive directors from different business and professional fields. The directors, including independent non-executive directors, have brought a wide spectrum of valuable business and professional expertise, experiences and independent judgement to the Board for its efficient and effective delivery of the Board function.

At the date of this report, the Board comprises the following directors:

Executive Directors	Dr. Liu Ruopeng Dr. Zhang Yangyang Dr. Luan Lin Mr. Ko Chun Shun, Johnson
Independent Non-executive Directors	Dr. Wong Kai Kit Dr. Liu Jun Ms. Zong Nan

The profiles of each director are set out in the "Biographical Details of Directors and Senior Management" section on pages 15 to 16.

Chairman and Chief Executive Officer

Dr. Liu Ruopeng is the chairman of the Company and Dr. Zhang Yangyang is the chief executive officer ("CEO") of the Company. The roles of the chairman and CEO are served by different individuals to achieve a balance of authority and power. The main responsibility of the chairman is to lead the Board and manage its work to ensure that it effectively operates and fully discharges its responsibilities. Supported by the members of committees of the Board, the CEO is responsible for the day-to-day management of the Group's business, recommending strategies to the Board, and determining and implementing operational decisions.

Directors' and Officer's Insurance

The Company purchased the directors' and officers' liability insurance for members of the Board for the year to provide protection against claims arising from the lawful discharge of duties by the directors.

Independent Non-Executive Directors

Throughout the period and up to the date of this report, the Company has complied with the requirements under Rules 3.10 of the Listing Rules. It requires at least three independent non-executive directors and that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. The Company has received written annual confirmation from each independent non-executive director of their independence pursuant to the requirements of rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independence in accordance with the independence guidelines set out in the Listing Rules.

CORPORATE GOVERNANCE REPORT

Appointments, Re-election and Removal of Directors

Each of Dr. Liu Jun and Ms. Zong Nan has entered into a service contract or letter of appointment with the Company for a specific term. Such term is subject to her/ his re-appointment by the Company at an annual general meeting upon such Director's retirement by rotation at least once every three years and offering herself/himself for re-election. Other Directors have not entered into any service contract with the Company and they are subject to retirement by rotation and re-election in accordance with the bye-laws of the Company. The bye-laws of the Company provide that any Director appointed by the Board, (i) to fill a casual vacancy in the Board, shall hold office only until the next following general meeting of the Company and shall be subject to re-election at such meeting and (ii) as an addition to the Board shall hold office until the next annual general meeting of the Company and shall then be eligible for re-election.

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its model code for securities transactions by Directors. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code except Dr. Liu Jun has not comply with Model Code A.3(a)(ii) and B.8 during the year ended 31 December 2015.

On 25 August 2015, Dr. Liu Jun acquired 50,000 ordinary shares of the Company without first notifying in writing the chairman of the Board. Therefore Dr. Liu Jun has not complied with paragraphs A.3(a)(ii) and B.8 of Appendix 10 to the Listing Rules during the year ended 31 December 2015.

The Company had provided further training on the requirements of Appendix 10 to the Listing Rules "Model Code for Securities Transactions by Directors of Listed Issuers" to each Director.

Directors' continuous training and development

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution into the Board remains informed and relevant. The directors are committed to complying with the CG Code A6.5 on directors' training. All directors have participated in continuous professional development by attending seminars and/or studying materials relevant to director's duties and responsibility and provided a record of training they received for the financial year ended 31 December 2015 to the Company.

BOARD COMMITTEES

The Board has established three committees, namely the remuneration committee, audit committee and nomination committee. Each of which has specific written terms of reference.

Remuneration Committee

The remuneration committee comprises one executive director and two independent non-executive directors. The committee is chaired by Dr. Liu Ruopeng with Dr. Liu Jun and Dr. Wong Kai Kit as members.

The principal responsibilities of the remuneration committee include making recommendations to the Board on the remuneration policy and structure and remuneration packages of the executive directors, non-executive directors and senior management. The remuneration committee is also responsible for recommending to the Board of transparent procedures for developing such remuneration policy and structure and ensuring no director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

During the year under review, the Remuneration Committee has reviewed and made recommendation to the Board on the remuneration policy and structure of the Company, and determined the remuneration packages of the Directors and senior management. Details of the Directors' remuneration and five individuals with highest emoluments are set out in notes 12 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

In addition, pursuant to the code provision B.1.5, the annual remuneration of the member of the current senior management (other than directors) by band for the year ended 31 December 2015 is set out below:

Remuneration band (in HK$)	Number of individuals
HK$nil to 1,000,000	1
1,000,001 to 3,000,000	2
3,000,001 to 4,000,000	1
9,000,001 to 10,000,000	1
14,000,001 to 15,000,000	1

Audit Committee

The audit committee comprises three independent non-executive directors. The committee is chaired by Ms. Zong Nan with Dr. Liu Jun and Dr. Wong Kai Kit as members. None of the members of the audit committee is a former partner of the Company's existing external auditors.

The main duties of the audit committee include the followings:

(a) to review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor (if any) or external auditor before submission to the Board.

(b) to review the relationship with the external auditor by reference to the work performed, their fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditor.

(c) to review the adequacy and effectiveness of the Company's financial reporting system, risk management and internal control systems and associated procedures.

The audit committee held 2 meetings during the year ended 31 December 2015 to review the financial results and reports of the Company with the external auditors.

Nomination Committee

The nomination committee comprises one executive director and two independent non-executive directors. The committee is chaired by Dr. Wong Kai Kit with Dr. Zhang Yangyang and Dr. Liu Jun as members.

The principal responsibilities of the nomination committee are regular review of the Board composition, identifying and nominating suitable candidates as Board members, assessment of the independence of the independent non-executive directors and Board evaluation. The nomination committee also reviews the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and makes recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

During the year under review, the Board adopted a board diversity policy (the "Board Diversity Policy") setting out the approach to diversify members of the Board. The Company believes that a diversified perspective can be achieved through implementation of the Board Diversity Policy. The diversity of the Board members should be assessed on a diversity of perspectives including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on objective criteria, merit and contribution that the selected candidates will bring to the Board having due regard for the benefits of diversity on the Board.

CORPORATE GOVERNANCE REPORT

The Nomination Committee will review the Board Diversity Policy on a regular basis to ensure its continued effectiveness.

Meetings

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The Board met 11 times during the year ended 31 December 2015.

Agenda and Board papers together with all appropriate, complete and reliable information are normally sent to all directors before each Board meeting to keep the directors apprised to the latest developments and financial position of the Company and to enable them to make informed decisions. All directors are given the opportunity to include matters in the agenda for regular Board meetings. The Board and each director also have separate and independent access to senior management whenever necessary.

Minutes of all Board meetings, other Board Committee meetings and general meetings contain sufficient details of matters considered and decisions reached are kept by the secretary of the meetings and are open for inspection by the directors. The attendance of individual members of the Board meetings, other Board Committee meetings and general meetings during the year ended 31 December 2015 is set out in the table below:

	Meetings attended/Eligible to attend				
	Board of Directors	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**General Meetings**
Executive Directors					
Dr. Liu Ruopeng	8/11	N/A	1/1	N/A	1/5
Dr. Zhang Yangyang	10/11	N/A	N/A	1/1	3/5
Dr. Luan Lin	9/11	N/A	N/A	N/A	0/5
Mr. Ko Chun Shun, Johnson	6/11	N/A	N/A	N/A	2/5
Mr. Ng Man Chan*	N/A	N/A	N/A	N/A	0/1
Independent Non-executive Directors					
Dr. Liu Jun	6/11	2/2	1/1	1/1	0/5
Dr. Wong Kai Kit	9/11	2/2	1/1	1/1	2/5
Ms. Zong Nan#	3/3	N/A	N/A	N/A	1/1
Mr. Lau Man TakΔ	2/11	2/2	N/A	N/A	3/4

* Resigned on 27 February 2015
\# Appointed on 1 October 2015
Δ Resigned on 30 September 2015

Conflict of Interest

If a Director has a conflict of interest in relation to a transaction or proposal to be considered by the Board, the individual is required to declare such interest and to abstain from voting. The matter is considered at a Board meeting attended by Directors who have no material interest in the transaction. The Group also adopted certain internal control policies to manage potential conflicts of interest.

CORPORATE GOVERNANCE REPORT

Company Secretary

The Company Secretary of the Company is Mr. Law Wing Hee. The Company Secretary assists the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. Mr. Law confirmed that he has complied with all the required qualifications, experience and training requirements of the Listing Rules.

FINANCIAL REPORTING AND INTERNAL CONTROL

Directors' Responsibilities for the Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Group and have adopted the accounting principles generally accepted in Hong Kong and compiled with the requirements of Hong Kong Financial Reporting Standards which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. As at 31 December 2015, directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going concern basis. The accounting systems and internal control of the Company are designed to prevent any misappropriation of the Company's assets, any unauthorised transactions as well as to ensure the accuracy of the accounting records and the true and fairness of the financial statements.

The Board also acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's financial reports, inside information announcements and other financial disclosures required under Listing Rules, and reports to the regulators as well as information required to be disclosed pursuant to statutory requirements. The reporting responsibilities of the Company's independent auditor are set out in the Independent Auditor's Report on pages 40 to 41.

Internal Controls

The Board, recognising its overall responsibility in ensuring the systems of risk management and internal controls of the Company and for reviewing their effectiveness, is committed to implement an effective and sound risk management and internal control systems to safeguard the interests of shareholders and the assets of the Group. As at the date of this report, the Company has an internal audit function.

The Board is responsible for establishing the Group's risk management and internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk. The Board has conducted a review of the effectiveness and adequacy of the risk management and internal control systems of the Group and has reached the conclusion that the Group's risk management and internal control system was in place and effective.

External Auditor and Auditor's Remuneration

The Company's external auditor is Deloitte Touche Tohmatsu ("Deloitte"). The responsibilities of the auditor with respect to the financial reporting are set out in the Independent Auditor's Report on pages 40 to 41 of this Annual Report. The independence of the external auditor is monitored by the Audit Committee which is primarily responsible for making recommendations to the Board on the appointment of the external auditor as well as approving their terms of engagement and remuneration. Apart from the statutory audit of the Group's consolidated financial statements, Deloitte was also engaged to perform a review on the interim financial information of the Company for the six months ended 30 June 2015.

During the year ended 31 December 2015, the fees payable by the Group to the external auditor in respect of audit and non-audit services provided by them were as follows:

Services rendered for the Group

	HK$'000
Audit services	1,380
Other non-audit services	300
Total	1,680

CORPORATE GOVERNANCE REPORT

SHAREHOLDER RIGHTS, INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

Shareholder Rights

To safeguard shareholder interest and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors.

Enquiries of shareholders can be sent to the Company by post to the Company's Hong Kong head office at Units 515-518, 5/F, Building 16W, No. 16 Science Park West Avenue, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong. Shareholders' enquiries and concerns, where appropriate, will be forwarded to and answered by the Board. In addition, shareholders can contact the share registrar of the Company if they have any enquiries about their shareholdings. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Stock Exchange and the Company after each shareholder meeting.

Pursuant to the Bye-Laws of the Company, the Board may whenever it thinks fit call special general meetings, and the shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

Investor Relations and Communications with Shareholders

The Board recognises the importance of good communication with shareholders. The Company has established a shareholders communication policy to set out the Company's procedures in providing shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company.

Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents together with the latest corporate information are also made available on the Company's website.

The Company regards the annual general meeting of the Company as an important event and all directors, senior management and external auditors make an effort to attend the annual general meeting of the Company to address shareholders' queries. Shareholders are encouraged to attend all general meetings of the Company, such as the annual general meeting for which at least 21 clear business days notice is given.

The Company has complied with the requirements concerning voting by poll under the Listing Rules. Details of the poll voting procedures and the rights of shareholders to demand a poll are included in circulars to shareholders of the Company dispatched by the Company where applicable.

Constitutional Documents

During the year ended 31 December 2015, there are no changes in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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TO THE SHAREHOLDERS OF KUANGCHI SCIENCE LIMITED
(**Formerly known as Climax International Company Limited**)
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Kuangchi Science Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 42 to 127, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
31 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	**01.01.2015 to 31.12.2015 HK$'000**	01.04.2014 to 31.12.2014 HK$'000
Revenue	5	**353,831**	79,464
Cost of sales		**(128,670)**	(61,007)
Gross profit		**225,161**	18,457
Other income	7	**126,993**	8,777
Other gains and losses	8	**(45,206)**	(10,922)
Impairment loss recognised in respect of goodwill	18	**(13,501)**	(34,160)
Share of results of an associate	19	**(654)**	–
Selling and distribution expenses		**(22,630)**	(2,258)
Research and development expenses		**(72,566)**	(63,968)
Administrative expenses		**(178,946)**	(68,026)
Finance costs	9	**(8,874)**	(574)
Profit (loss) before tax		**9,777**	(152,674)
Income tax expense	10	**(14,761)**	(861)
Loss for the year/period	11	**(4,984)**	(153,535)
Other comprehensive expense			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translating foreign operations		**(62,090)**	(2,047)
Total comprehensive expense for the year/period		**(67,074)**	(155,582)
Profit (loss) for the year/period attributable to:			
Shareholders of the Company		**30,012**	(153,535)
Non-controlling interests		**(34,996)**	–
		(4,984)	(153,535)
Total comprehensive expense attributable to:			
Shareholders of the Company		**(30,618)**	(155,582)
Non-controlling interests		**(36,456)**	–
		(67,074)	(155,582)
Earnings (loss) per share	14		
Basic (HK cents per share)		**0.65**	(6.56)
Diluted (HK cents per share)		**0.49**	(6.56)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Plant and equipment	15	**162,691**	47,633
Other intangible assets	16	**109,256**	–
Investment properties	17	**13,700**	13,100
Goodwill	18	**71,746**	13,501
Investment in an associate	19	**4,290**	–
Derivative financial assets	20	**51,300**	–
Prepaid lease payments	21	**91,749**	–
Deposit paid for acquisition of a company	40	**–**	133,277
Deposits paid for acquisition of plant and equipment		**31,474**	8,071
Pledged deposit	22	**143,280**	187,575
Prepayment for advertising		**11,940**	–
		691,426	403,157
CURRENT ASSETS			
Prepaid lease payments	21	**2,357**	–
Inventories	23	**44,037**	14,365
Trade and other receivables	24	**358,061**	33,411
Income tax recoverable		**8,339**	–
Time deposit	22	**125,133**	–
Bank balances and cash	22	**1,228,556**	1,485,818
		1,766,483	1,533,594
CURRENT LIABILITIES			
Trade and other payables, and deferred revenue	25	**120,056**	75,661
Income tax payable		**14,589**	752
Obligations under finance lease			
– amount due within one year	28	**233**	1,400
Convertible debenture	27	**5,569**	–
		140,447	77,813
NET CURRENT ASSETS		**1,626,036**	1,455,781
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,317,462**	1,858,938

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
NON-CURRENT LIABILITIES			
Long term payable	25	–	345
Bank borrowings	26	**142,397**	140,000
Obligations under finance lease – amount due after one year	28	–	233
Deferred tax liabilities	29	**67**	119
		142,464	140,697
NET ASSETS		**2,174,998**	1,718,241
CAPITAL AND RESERVES			
Share capital – Ordinary shares	30	**57,137**	34,061
Share capital – Preferred shares	30	**3,757**	10,733
Reserves		**1,861,237**	1,668,445
Equity attributable to shareholders of the Company		**1,922,131**	1,713,239
Non-controlling interest		**252,867**	5,002
TOTAL EQUITY		**2,174,998**	1,718,241

The consolidated financial statements on pages 42 to 127 were approved and authorised for issue by the Board of Directors on 31 March 2016 and are signed on its behalf by:

Dr. Liu Ruopeng
DIRECTOR

Dr. Zhang Yangyang
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company										Attributable to non-controlling interest				
	Share capital – Ordinary shares HK$'000	Share capital – Preferred share HK$'000	Share premium HK$'000	Share premium– preferred share HK$'000	Capital reserve HK$'000 (note a)	Contributed surplus HK$'000 (note b)	Share-based payment reserve HK$'000 (note c)	Exchange translation reserve HK$'000	Accumulated losses HK$'000	Subtotal HK$'000	Share-based payment reserves of subsidiaries HK$'000 (note d)	Convertible debenture equity reserve of a subsidiary HK$'000 (note e)	Share of net assets of subsidiaries HK$'000	Subtotal HK$'000	Total HK$'000
Balance at 1 April 2014	14,495	–	254,893	–	17,900	103,941	–	1,727	(225,791)	167,165	–	–	–	–	167,165
Loss for the period	–	–	–	–	–	–	–	–	(153,535)	(153,535)	–	–	–	–	(153,535)
Other comprehensive expense for the period	–	–	–	–	–	–	–	(2,047)	–	(2,047)	–	–	–	–	(2,047)
Total comprehensive expense for the period	–	–	–	–	–	–	–	(2,047)	(153,535)	(155,582)	–	–	–	–	(155,582)
Recognition of share-based payment	–	–	–	–	–	–	18,138	–	–	18,138	–	–	–	–	18,138
Subscription of shares (note 27a)	16,667	10,733	116,667	–	–	–	–	–	–	144,067	–	–	–	–	144,067
Subscription of shares (note 27b)	2,899	–	1,558,502	–	–	–	–	–	–	1,561,401	–	–	–	–	1,561,401
Transaction cost attributable to subscription of shares	–	–	(21,735)	–	–	–	–	–	–	(21,735)	–	–	–	–	(21,735)
Disposal of subsidiaries (note 32)	–	–	–	–	–	–	–	(215)	–	(215)	–	–	–	–	(215)
Non-controlling interest arising on the incorporation of Shen Zhen Kuangchi Manned Space Technology Limited (note 37)	–	–	–	–	–	–	–	–	–	–	–	–	5,002	5,002	5,002
Balance at 31 December 2014	34,061	10,733	1,908,327	–	17,900	103,941	18,138	(535)	(379,326)	1,713,239	–	–	5,002	5,002	1,718,241
Profit (loss) for the year	–	–	–	–	–	–	–	–	30,012	30,012	–	–	(34,996)	(34,996)	(4,984)
Other comprehensive expense for the year	–	–	–	–	–	–	–	(60,630)	–	(60,630)	–	–	(1,460)	(1,460)	(62,090)
Total comprehensive expense for the year	–	–	–	–	–	–	–	(60,630)	30,012	(30,618)	–	–	(36,456)	(36,456)	(67,074)
Subscription of preferred shares (note 30)	–	16,100	–	187,819	–	–	–	–	–	203,919	–	–	–	–	203,919
Conversion of preferred shares (note 30)	23,076	(23,076)	161,538	(161,538)	–	–	–	–	–	–	–	–	–	–	–
Acquisition of subsidiaries (note 35)	–	–	–	–	(24,201)	–	–	–	–	(24,201)	11,325	3,823	259,913	275,061	250,860
Change in shareholding in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	4,914	4,914	4,914
Recognition of share-based payment	–	–	–	–	–	–	59,792	–	–	59,792	4,346	–	–	4,346	64,138
Balance at 31 December 2015	57,137	3,757	2,069,865	26,281	(6,301)	103,941	77,930	(61,165)	(349,314)	1,922,131	15,671	3,823	233,373	252,867	2,174,998

Notes:

(a) The balance of capital reserve represents the capital reserve arising from the group restructuring which took place in 1992 and an option right arising from the acquisition of a subsidiary in 2015 as set out in note 35(b).

(b) The balance of contributed surplus arose as result of the Company's capital reduction exercises which took place in the financial years of 2003 and 2006.

(c) The balance of share-based payment reserve represents share options granted on 26 August 2014 as set out in note 32.

(d) The balance of share-based payment reserves of subsidiaries represent share options granted by subsidiaries as set out in note 35(a) and 35(b).

(e) The balance of convertible debenture equity reserve of a subsidiary represents the equity element of convertible debenture issued by a subsidiary as set out in note note 35(b).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000
OPERATING ACTIVITIES		
Profit (loss) before tax	9,777	(152,674)
Adjustments for:		
Depreciation of plant and equipment	6,950	3,584
Amortisation of intangible assets	9,142	–
Interest income	(50,643)	(6,015)
Gain on change in fair value of investment properties	(600)	(108)
Dividend income	–	(87)
(Gain) loss on disposal of plant and equipment	(1,060)	210
Write off of plant and equipment	2,155	–
impairment loss recognised in respect of goodwill	13,501	34,160
Gain on changes in fair value of held for trading investment	–	(505)
Loss on change in fair value of derivative financial assets	663	–
Amortisation of prepaid lease payments	203	36
Finance costs	8,874	574
Impairment of associate	7,344	–
Gain on disposal of subsidiaries	–	(3,303)
Write-down of inventories	1,144	2,266
Share-based payment expenses	64,138	18,138
Operating cash flows before movements in working capital	71,588	(103,724)
(Increase) decrease in inventories	(14,537)	204
Increase in trade and other receivables	(312,777)	(9,821)
Increase in trade and other payables	11,263	61,739
Increase in prepayment for advertising	(12,322)	–
(Decrease) increase in long term payable	(352)	345
Proceeds from disposal of held for trading investments	–	4,765
Cash used in operations	(257,137)	(46,492)
Income tax paid	(3,742)	(34)
Interest paid	(8,874)	(574)
NET CASH USED IN OPERATING ACTIVITIES	(269,753)	(47,100)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000
INVESTING ACTIVITIES		
Purchase of plant and equipment	(134,808)	(22,789)
Purchase of intangible assets	(4,522)	–
Addition of prepaid lease payment	(97,320)	–
Dividend received	–	87
Proceeds from disposal of investment properties	–	12,608
Proceeds from disposal of plant and equipment	3,649	251
Interest received	43,769	1,778
Advance of loan to Martin Aircraft Company Limited ("MACL")	–	(6,346)
Release of deposit paid for acquisition of a company	135,200	–
Placement of time deposit	(125,133)	–
Release of pledged deposit	187,575	–
Placement of pledged deposit	(143,280)	(187,575)
Net cash inflow from disposal of subsidiaries	–	12,001
Deposit paid for acquisition of a company	–	(133,277)
Deposits paid for acquisition of plant and equipment	(23,403)	(8,071)
Acquisition of investment in an associate	(11,634)	–
Net cash inflow from acquisition of subsidiaries	19,755	–
NET CASH USED IN INVESTING ACTIVITIES	(150,152)	(331,333)
FINANCING ACTIVITIES		
Proceeds from bank borrowings	142,397	140,000
Repayment of bank borrowings	(140,000)	(5,754)
Proceeds from issue of ordinary shares	–	1,694,735
Proceeds from issue of preferred shares	203,919	10,733
Contribution from non-controlling interest	4,914	5,002
Repayment of principal for obligations under finance lease	(1,547)	(1,050)
Payment of transaction costs attributable to issue of new shares	–	(21,735)
NET CASH GENERATED BY FINANCING ACTIVITIES	209,683	1,821,931
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(210,222)	1,443,498
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD	1,485,818	44,324
Effect of foreign exchange rate changes	(47,040)	(2,004)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD		
Bank balances and cash	1,228,556	1,485,818

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL

The Company is a limited company incorporated in Bermuda as an exempted company and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company, its immediate holding company is New Horizon Wireless Technology Limited which is incorporated in the British Virgin Islands. Its ultimate holding company is Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership which was established in the People's Republic of China. Its ultimate controlling party is Dr. Liu Ruopeng, who is also an executive director of the Company. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of its business is Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are provision of in-depth space services, manufacturing and trading of paper packaging products and property investment. Details of the principal subsidiaries are set out in note 41. The consolidated financial statements are presented in Hong Kong dollars for the convenience of the shareholders, as the Company is listed in Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to HKAS 1	Disclosure Initiative[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012- 2014 Cycle[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[3]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[3]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after a date to be determined

HKFRS 9 *Financial Instruments*

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 that are relevant to the Group based on an assessment of the Group's financial assets and liabilities at 31 December 2015 is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 *Financial Instruments* (Continued)

All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have certain impact on amounts reported in respect of the Group's financial assets (e.g. the impairment on trade and other receivables). It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 *Revenue from Contracts with Customers*

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 15 *Revenue from Contracts with Customers* (Continued)

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have certain impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Except as described above, the directors of the Company do not expect that the application of the other new and revised HKFRSs in issue but not yet effective will have a material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the provisions of the new Hong Kong Companies Ordinance regarding preparation of accounts and directors' reports and audits and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements.

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Profit or loss and each component of other comprehensive income are attributed to the shareholders of the Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively; and

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by HKFRSs.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statement of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in an associate (Continued)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Consultancy fees in relation to in-depth space services are recognised when service is rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or service, or for administrative purposes other than properties under construction as described below are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write-off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Assets held under finance leases are depreciated over their excepted useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are deprecated over the shorter of the lease terms and then useful lives.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current, market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flow have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profits or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimated of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired in a business combination disclosed above.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. All of the Group’s property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

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

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive loss or income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated cost of completion and cost necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into financial assets 'at fair value through profit or loss' (FVTPL) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of a portfolio of identified financial instruments that the Group manages together and as a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend on the financial assets and is included in the other gains and losses line item. Fair value is determined in the manner described in note 34.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash, pledged deposit and time deposit) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including bank borrowings, trade and other payables and amount due to related companies) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's are derecognised when the obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Convertible debenture

Convertible debenture containing liability and equity components

The component parts of the convertible debenture issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible debenture (Continued)

Convertible debenture containing liability and equity components (Continued)

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in non-controlling interests in the "convertible equity reserve of a subsidiary", net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in non-controlling interests until the conversion option is exercised or if it remains unexercised at the maturity date of the convertible debenture, in which case, the balance recognised in non-controlling interests will be transferred to the non-controlling interests' share of net assets of subsidiaries. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible debenture are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to non-controlling interests "convertible equity reserve of a subsidiary". Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of convertible debenture using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Share-based payment arrangements

Share-based payment transactions

Equity-settled share-based payment to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 32.

The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment arrangements (Continued)

Share-based payment transactions (Continued)

When the Company modifies the terms and conditions on which the equity instruments were granted, the Company recognises, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. This applies irrespective of any modifications to the terms and conditions on which the equity instruments were granted. In addition, the Company recognises the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employees.

If the modification increases the fair value of the equity instruments granted, measured immediately before and after the modification, the Company includes the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognised immediately, or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

At the acquisition date, when the outstanding equity-settled share-based payment transactions held by the employees of an acquiree are not exchanged by the Group for its share-based payment transactions, the acquiree share-based payment transactions are measured at their market-based measure at the acquisition date. If the share-based payment transactions have vested by the acquisition date, they are included as part of the non-controlling interest in the acquiree. However, if the share-based payment transactions have not vested by the acquisition date, the market-based measure of the unvested share-based payment transactions is allocated to the non-controlling interest in the acquiree based on the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of those share options. The balance is recognised as remuneration cost for post-combination service.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgement in applying accounting policy

The following is the critical judgement, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policy and that has the most significant effect on the amounts recognised in the consolidated financial statements.

Revenue recognition

A substantial portion of the revenue recognised in respect of the sales of the "Cloud" (as defined in note 5) relates to a Cloud sold but which has not been delivered to the customer as at 31 December 2015. In this case, the delivery is delayed at the customer's request and the customer took title and accepted billings for the Cloud. In the light of this, the directors of the Company considered whether it was appropriate to recognise the revenue from the transaction amounting to HK$102,367,000 in the current year.

In making the judgment, the directors of the Company considered the detailed criteria for the recognition of revenue from the sale of goods set out in HKAS 18 Revenue and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. Following a confirmation received and the the assessments made by the directors, the directors of the Company are satisfied that the significant risks and rewards have been transferred to the customer and that recognition of the revenue in the current year is appropriate.

Control over Martin Aircraft Company Limited ("MACL") and Solar Ship Inc. ("Solar Ship")

Note 35 describes that MACL and Solar Ship are subsidiaries of the Group although the Group has only 22.68% and 32.58% ownership interest and voting rights in MACL and Solar Ship respectively.

The directors of the Company assessed whether or not the Group has control over MACL and Solar Ship based on whether the Group has the practical ability to direct the relevant activities of MACL and Solar Ship unilaterally. In making the judgement, the directors considered that the Group holds rights to financial instruments containing potential voting rights to the Company for both subsidiaries as discussed in note 35. After assessment, the directors concluded that the Group has sufficiently dominant voting interest to direct the relevant activities of MACL and Solar Ship and therefore the Group has control over MACL and Solar Ship.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios which is located in Hong Kong and concluded that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Estimated impairment loss in respect of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated. The directors of the company estimate the recoverable amount based on a value-in-use calculation. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amount of goodwill is approximately HK$71,746,000 (31 December 2014: HK$13,501,000), net of impairment loss of approximately HK$13,501,000 recognised in the current period (31 December 2014: HK$34,160,000). Details of the recoverable amount calculation are disclosed in note 18.

Fair value of investment properties and derivative financial instruments

At the end of the reporting period, investment properties and derivative financial instruments are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market conditions and the establishment of the appropriate valuation techniques and input to the model. In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the assumptions, valuation techniques and inputs used in the valuations have reflected the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and derivative financial instruments being recognised in profit or loss. The carrying amount of investment properties and derivative financial instruments measured at fair value at 31 December 2015 was approximately HK$13,700,000 and HK$51,300,000 respectively (31 December 2014: investment properties of HK$13,100,000, derivative financial instruments: N/A).

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amount of trade receivable is HK$310,446,000 (31 December 2014: HK$18,614,000). No allowance for doubtful debts is provided for both years. As set out in note 24, included in trade receivables overdue are balances arising from the sales of two "Clouds", amounting to approximately HK$266,859,000. Despite the lack of repayment track record, management consider there are no recoverability issue on these receivables as these customers are local government related bodies and have a solid financial background.

Recognition of deferred tax on undistributed profits of subsidiaries in the PRC

As at 31 December 2015 and 31 December 2014, no deferred tax liabilities have been recognised on the undistributed profits of the group companies in the PRC as the Group plans to retain those profits in the respective entities for their daily operations and future developments. In case there is a change in such plan, additional tax liabilities will arise, which will be recognised in the profit or loss for the period in which the management intends to declare such profits in the foreseeable future or the Group's future development plan is amended, whichever is earlier.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. REVENUE

An analysis of the Group's revenue for the year/period is as follows:

	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000
Revenue from the sales of the "Cloud" (note a)	**258,885**	–
Revenue from the sale of printing goods	**74,669**	69,737
Revenue from In-depth space consultancy services	**19,921**	9,224
Revenue from rental income (note b)	**356**	503
	353,831	79,464

See note 6 for an analysis of revenue by major products and services.

Notes:

(a) The "Cloud" is a flying apparatus platform providing integrated services including communication, internet access, big data collection and analysis.

(b) An analysis of the Group's net rental income from investment properties is as follows:

	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000
Gross rental income	**356**	503
Less: Outgoings (included in cost of sales)	**(6)**	(18)
Net rental income	**350**	485

6. SEGMENT INFORMATION

Information reported to the Executive Directors of the Company, being the chief operating decision-makers (the "CODMs"), for the purpose of resources allocation and performance assessment focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1. In-depth space services – applying the technology developed in respect of the civil near space flying apparatus to sell the related products and to provide various consultancy services regarding in-depth space services.

2. Paper business – manufacturing and trading of paper packaging products, paper gift items and paper promotional materials.

3. Property investment – leasing of property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

	In-depth space services		Paper business		Property investment		Total	
	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000	**01.01.2015 to 31.12.2015 HK$'000**	01.04.2014 to 31.12.2014 HK$'000	**01.01.2015 to 31.12.2015 HK$'000**	01.04.2014 to 31.12.2014 HK$'000	**01.01.2015 to 31.12.2015 HK$'000**	01.04.2014 to 31.12.2014 HK$'000
Revenue	**278,806**	9,224	**74,669**	69,737	**356**	503	**353,831**	79,464
Segment profit (loss)	**83,341**	(66,537)	**(33,205)**	(36,131)	**923**	65	**51,059**	(102,603)
Unallocated corporate income							**49,743**	10,556
Unallocated corporate expenses							**(82,851)**	(60,053)
Finance costs							**(8,174)**	(574)
Profit (loss) before tax							**9,777**	(152,674)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3.

Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of central corporate income and expense, directors' remuneration, gain on disposal of subsidiaries, financial advisory expenses, certain share-based payments, certain other income, and finance costs. This is the measure reported to the executive directors for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

Segment assets

	2015 HK$'000	2014 HK$'000
In-depth space services	**818,060**	164,008
Paper business	**61,341**	73,509
Property investment	**13,705**	13,109
Total segment assets	**893,106**	250,626
Unallocated corporate assets	**1,564,803**	1,686,125
Consolidated assets	**2,457,909**	1,936,751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

Segment liabilities

	2015 HK$'000	2014 HK$'000
In-depth space services	**109,061**	44,111
Paper business	**33,625**	21,144
Property investment	**93**	157
Total segment liabilities	**142,779**	65,412
Unallocated corporate liabilities	**140,132**	153,098
Consolidated liabilities	**282,911**	218,510

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than pledged deposit, time deposit, bank balances and cash and other assets for corporate use including certain plant and equipment, deposits and other receivables; and
- all liabilities are allocated to operating segments other than bank borrowings, deferred tax liabilities, obligations under finance lease and certain other payables.

Other segment information

Year ended 31 December 2015

	In-depth space services HK$'000	Paper business HK$'000	Property investment HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or segment assets:					
Addition to plant and equipment	121,982	8,588	–	4,238	134,808
Depreciation and amortisation	12,042	3,646	–	404	16,092
Gain on changes in fair value of investment properties	–	–	(600)	–	(600)
Gain on disposal of plant and equipment	–	(1,060)	–	–	(1,060)
Write off of plant and equipment	–	2,155	–	–	2,155
Write-down of inventories	–	1,144	–	–	1,144
Impairment loss recognised in respect of goodwill	–	13,501	–	–	13,501

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

Period ended 31 December 2014

	In-depth space services HK$'000	Paper business HK$'000	Property investment HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or segment assets:					
Addition to plant and equipment	22,136	653	–	–	22,789
Depreciation and amortisation	37	3,531	48	4	3,620
Gain on changes in fair value of investment properties	–	–	(108)	–	(108)
Gain on changes in fair value of financial assets classified as held for trading	–	–	–	(505)	(505)
Loss on disposal of plant and equipment	–	12	198	–	210
Write-down of inventories	–	2,266	–	–	2,266
Impairment loss recognised in respect of goodwill	–	34,160	–	–	34,160

Geographical information

The Group operates in five principal geographical areas – the People's Republic of China (excluding Hong Kong) ("PRC"), Europe, Hong Kong, New Zealand and Canada.

Information about the Group's revenue from operations from external customers is presented based on the location of the goods delivered.

	Revenue from external customers		**Non-current assets***	
	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000	31.12.2015 HK$'000	31.12.2014 HK$'000
PRC	**283,846**	21,556	207,488	46,031
Europe	**20,682**	11,038	–	–
Hong Kong	**49,303**	46,870	17,541	36,274
New Zealand	**–**	–	146,788	–
Canada	**–**	–	108,798	–
	353,831	79,464	**480,615**	82,305

* Non-current assets exclude financial instruments, deferred tax assets and investment in an associate.

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For the year ended 31 December 2015

6. SEGMENT INFORMATION (Continued)

Information about major customers

Revenues from customers contributing over 10% of the total sales of the Group are all from In-depth Space segment for the year ended 31 December 2015; whereas those for period ended 31 December 2014 were from paper business segment:

	31.12.2015 **HK$'000**	31.12.2014 HK$'000
Customer 1*	**N/A#**	21,537
Customer 2	**N/A#**	13,460
Customer 3	**156,518**	N/A#
Customer 4	**102,367**	N/A#

* The customer represented one of the related parties, details of which were disclosed in note 40(ii).

The corresponding revenue did not contribute over 10% of the total revenue of the Group.

7. OTHER INCOME

	01.01.2015 to 31.12.2015 **HK$'000**	01.04.2014 to 31.12.2014 HK$'000
Sales of scrap materials	**496**	470
Interest income earned on bank balances and pledged deposit	**49,743**	6,015
Dividend income	**–**	87
Management fee income (note a)	**300**	666
Government subsidy (note b)	**73,932**	–
Write-off of other payables	**–**	1,074
Sundry income	**2,522**	465
	126,993	8,777

Notes:

(a) For the year ended 31 December 2015 and period ended 31 December 2014, the amount represented income from administrative services provided to a related company, New Spring Label & Packaging Limited ("New Spring Label"), of which Mr. Ng Man Chan ("Mr. Ng"), a director of the subsidiaries of the Company, and Ms. Li Mi Lai ("Ms. Li"), a close family member of Mr. Ng, are controlling shareholders (note 40).

(b) During the year ended 31 December 2015, the Group agreed to co-operate with the Dongguan People's Government Office ("the Office") to develop and promote the commercialization of innovative technology in Dongguan city in order to obtain government grant. The main conditions attaching to the government grant include the number of research specialist staff employed and the patents acquired (the "Condition"). As specified in the contract, the government grant will be paid by the Office when the Office was satisfied with an assessment report submitted by the Company summarising the achievements of the Conditions in details. During the year ended 31 December 2015, the Group submitted the assessment report to the Office and then within the same year, they received a government grant amounting to RMB 60,000,000 (equivalent to HK$73,932,000) from the Office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. OTHER GAINS AND LOSSES

	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000
Gain (loss) on disposal of plant and equipment	**1,060**	(210)
Write off of plant and equipment	**(2,155)**	–
Gain on disposal of subsidiaries (note 36)	**–**	3,303
Gain arising on change in fair value of investment properties (note 17)	**600**	108
Gain arising on change in fair value of financial assets classified as held for trading investments	**–**	505
Write-down of inventories	**(1,144)**	(2,266)
Impairment loss recognised in respect of investment in an associate (note 19)	**(6,690)**	–
Loss arising on change in fair value of derivative financial assets	**(663)**	–
Exchange loss, net	**(36,214)**	(12,362)
	(45,206)	(10,922)

9. FINANCE COSTS

	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000
Interest on:		
Bank borrowings	**8,174**	415
Interest on convertible debenture	**489**	–
Obligations under finance lease	**211**	159
	8,874	574

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For the year ended 31 December 2015

10. INCOME TAX EXPENSE

	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000
The charge comprises:		
Current tax		
PRC Enterprise Income Tax	**14,715**	90
Hong Kong profits tax	**98**	809
	14,813	899
Deferred taxation (note 29)	**(52)**	(38)
	14,761	861

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year/period.

PRC subsidiaries are subject to PRC Enterprise Income Tax at rate at 25% for the year (period ended 31 December 2014: 25%), except for a PRC subsidiary established in Qianhai in the current year which is subject to PRC Enterprise Income Tax at rate at 15% for the year (period ended 31 December 2014: N/A).

Prima facie tax in New Zealand is calculated at a rate of 28% of the estimated assessable profit for the year ended 31 December 2015 and period ended 31 December 2014. Statutory tax in Canada is calculated at a rate of 15.5% of the estimated assessable profit for the year ended 31 December 2015 and period ended 31 December 2014. No current tax was provided in these jurisdictions for the year ended 31 December 2015 as there were no assessable profit.

The tax charge for the year/period can be reconciled to the profit (loss) before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000
Profit (loss) before tax	**9,777**	(152,674)
Tax at Hong Kong tax rate of 16.5%	**1,613**	(25,191)
Tax effect of different tax rates of subsidiaries' operations in other jurisdictions and region	**(4,075)**	(437)
Tax effect of expenses not deductible for tax purposes	**38,190**	27,711
Tax effect of income not taxable for tax purposes	**(26,519)**	(1,447)
Tax effect of unrecognised tax losses	**21,858**	284
Utilisation of tax losses previously not recognised	**(16,306)**	(59)
Tax charge for the year/period	**14,761**	861

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For the year ended 31 December 2015

11. PROFIT (LOSS) FOR THE YEAR/PERIOD

	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000
Profit (loss) for the year/period has been arrived at after charging:		
Staff cost, including directors' remuneration (note 12) and excluding staff cost in research and development expenses:		
Salaries, wages and other benefits	**83,215**	35,324
Retirement benefits scheme contributions (note 31)	**5,795**	1,834
Share-based payments – equity-settled (note 32)	**64,138**	18,138
Total staff costs	**153,148**	55,296
Research and development expenses:		
Consultancy fee (note)	**10,030**	55,000
Salaries and other benefits	**23,646**	8,280
Amortisation of other intangible assets	**9,142**	–
Material consumed	**15,948**	–
Retirement benefit scheme contribution (note 31)	**2,098**	647
Other	**11,702**	41
	72,566	63,968
Amortisation of prepaid lease payments	**203**	36
Auditor's remuneration	**1,380**	880
Depreciation for plant and equipment	**6,950**	3,584
Operating lease rental on land and buildings	**6,607**	1,427
Cost of inventories recognised as an expense	**128,664**	60,989
Advisory expenses (note 40(ii)) (note)	**8,036**	30,126
Advertising expense	**14,558**	107

Note: For the period ended 31 December 2014, the amount represented consultancy fee incurred and payable to a related company, Kuang-Chi Innovative Technology Limited, in which Dr. Liu Ruopeng, a controlling shareholder and a director of the Company, is a director and a shareholder with significant influence (note 40(ii)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors

Details of emoluments of individual directors are set out as follows:

Year ended 31 December 2015

	Fee HK$'000	Salary and other allowance HK$'000	Bonus HK$'000	Retirement benefits scheme contributions HK$'000	Share-based payment HK$'000	Total HK$'000
Executive Directors						
Dr. Liu Ruopeng	986	–	–	–	–	986
Dr. Zhang Yangyang	925	–	–	–	12,466	13,391
Dr. Luan Lin	863	–	–	–	8,439	9,302
Mr. Ko Chun Shun, Johnson	–	–	–	–	–	–
Mr. Ng Man Chan#	58	–	–	3	–	61
Independent Non-executive Directors						
Mr. Lau Man TakΔ	188	–	–	–	–	188
Dr. Liu Jun	250	–	–	–	–	250
Dr. Wong Kai Kit	250	–	–	–	–	250
Ms. Zong Nan*	63	–	–	–	–	63
	3,583	–	–	3	20,905	24,491

resigned on 27 February 2015
Δ resigned on 30 September 2015
* appointed on 1 October 2015

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12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

Period ended 31 December 2014

	Fee HK$'000	Salary and other allowance HK$'000	Bonus HK$'000	Retirement benefits scheme contributions HK$'000	Share-based payment HK$'000	Total HK$'000
Executive Directors						
Dr. Liu Ruopeng*	344	–	–	–	–	344
Dr. Zhang Yangyang*	307	–	–	–	3,906	4,213
Dr. Luan Lin*	244	–	–	–	2,578	2,822
Mr. Ko Chun Shun, Johnson*	–	–	–	–	–	–
Mr. Wong Hin Shek#	–	–	–	–	–	–
Mr. Ng Man Chan	527	–	–	27	–	554
Non-executive Director						
Mr. Wong Hung Ki#	47	–	–	–	–	47
Independent Non-executive Directors						
Mr. Lau Man Tak	129	–	–	–	–	129
Dr. Liu Jun*	90	–	–	–	–	90
Mr. Man Kwok Leung#	39	–	–	–	–	39
Dr. Wong Kai Kit*	90	–	–	–	–	90
Dr. Wong Yun Kuen#	39	–	–	–	–	39
	1,856	–	–	27	6,484	8,367

* appointed on 22 August 2014

\# resigned on 23 August 2014

During the year ended 31 December 2015, no amount was paid in respect of Mr. Ko Chun Shun, Johnson's ("Mr. Ko") directorship (period ended 31 December 2014: no amount was paid in respect of Mr. Ko and Mr. Wong Hin Shek).

Dr. Zhang Yangyang is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

Neither the chief executive nor any of the directors waived or agreed to waive any emoluments during the year ended 31 December 2015 or period ended 31 December 2014.

No emoluments have been paid by the Group to any of the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2015 and the period ended 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

Directors (Continued)

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Group.

The non-executive directors' and independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Employees

Of the five individuals with the highest emoluments in the Group, there were two (period ended 31 December 2014: two) directors whose emoluments are included in the disclosures above. The emoluments of the remaining three (period ended 31 December 2014: three) individuals were as follows:

	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000
Salaries and other allowances	**3,717**	997
Retirement benefit scheme contributions	**–**	–
Share based payments	**22,716**	7,356
	26,433	8,353

Their emoluments were within the following band:

	01.01.2015 to 31.12.2015 Number of Individuals	01.04.2014 to 31.12.2014 Number of Individuals
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$5,000,000	**–**	1
HK$9,000,001 to HK$10,000,000	**1**	–
HK$14,000,001 to HK$15,000,000	**1**	–
	3	3

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13. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2015, nor has any dividend been proposed for the year ended 31 December 2015 (period ended 31 December 2014: Nil).

14. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the shareholders of the Company is based on the following data:

	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000
Profit (loss)		
Profit (loss) for the purpose of basic and diluted earnings (loss) per share (profit (loss) for the year/period attributable to shareholders of the Company)	**30,012**	(153,535)

	01.01.2015 to 31.12.2015	01.04.2014 to 31.12.2014
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**4,605,995,646**	2,341,479,429
Effect of dilutive potential ordinary shares:		
Preferrred shares (note 30)	**1,483,405,479**	–
Share options of the Company (note 32)	**11,894,624**	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**6,101,295,749**	2,341,479,429

For the year ended 31 December 2015, the computation of diluted earnings per share does not assume the conversion of the Group's outstanding convertible debenture or the exercise of the outstanding share options issued by loss-making subsidiaries of the Group since their assumed conversion or exercise would result in an increase in the earnings per share.

For the period ended 31 December 2014, the computation of diluted loss per share does not assume the conversion of the Company's outstanding preferred shares or the exercise of the Company's outstanding share options since their assumed conversion or exercise would result in a decrease in loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

15. PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Furniture and fixture HK$'000	Office equipment HK$'000	Leasehold improvement HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 April 2014	35,028	536	1,535	359	1,114	–	38,572
Additions	510	–	–	–	1,547	20,732	22,789
Disposals	(833)	–	(310)	(49)	–	–	(1,192)
Exchange realignment	(2)	–	–	–	(3)	(52)	(57)
At 31 December 2014	34,703	536	1,225	310	2,658	20,680	60,112
Additions	31,373	8,231	5,458	3,941	4,620	81,185	134,808
Addition through business combination (note 35)	7,465	–	787	14	–	2,904	11,170
Transfer	6,038	–	–	–	–	(6,038)	–
Transfer out (note)	–	–	–	–	–	(14,779)	(14,779)
Disposals	(5,140)	–	–	–	(47)	–	(5,187)
Written off	(4,462)	–	–	–	–	–	(4,462)
Exchange realignment	(3,695)	(269)	(193)	(18)	(217)	(933)	(5,325)
At 31 December 2015	66,282	8,498	7,277	4,247	7,014	83,019	176,337
DEPRECIATION							
At 1 April 2014	7,850	136	1,094	38	522	–	9,640
Provided for the year	3,197	39	63	6	279	–	3,584
Eliminated on disposals	(624)	–	(119)	(13)	–	–	(756)
Exchange realignment	10	–	–	–	1	–	11
At 31 December 2014	10,433	175	1,038	31	802	–	12,479
Provided for the year	3,724	593	1,300	258	1,075	–	6,950
Disposal	(2,559)	–	–	–	(39)	–	(2,598)
Write off	(2,307)	–	–	–	–	–	(2,307)
Exchange realignment	(725)	(25)	(46)	–	(82)	–	(878)
At 31 December 2015	8,566	743	2,292	289	1,756	–	13,646
CARRYING VALUES							
At 31 December 2015	57,716	7,755	4,985	3,958	5,258	83,019	162,691
At 31 December 2014	24,270	361	187	279	1,856	20,680	47,633

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15. PLANT AND EQUIPMENT (Continued)

The above items of plant and equipment, except for CIP, are depreciated over their estimated useful lives and after taking into account of their estimated residual value, on a straight-line basis at the following rates per annum:

Plant and machinery	6.6 – 20%
Furniture and fixture	8 – 33%
Office equipment	10 – 50%
Leasehold improvement	Over the shorter of the term of the lease or 5 years
Motor vehicles	10 – 20%

Construction in progress as at 31 December 2015 and 31 December 2014 represents warehouses and machineries for in-depth space services segment.

As at 31 December 2015, the carrying value of plant and machinery in respect of assets held under finance lease was approximately HK$4,038,000 (31 December 2014: HK$4,543,000).

Note: During the year ended 31 December 2015, construction in progress amounting to approximately HK$14,779,000 was transferred to inventories, as part of construction component of the "Cloud" which was sold to a third party customer subsequently.

16. OTHER INTANGIBLE ASSETS

	Software HK$'000	Technical knowhow and patents HK$'000	Total HK$'000
COST			
At 1 April 2014, 31 December 2014 and 1 January 2015	–	–	–
Addition arising from acquisition of subsidiaries (note 35)	141	126,185	126,326
Additions	3,155	1,367	4,522
Effect of foreign currency exchange differences	(112)	(12,418)	(12,530)
At 31 December 2015	3,184	115,134	118,318
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 April 2014, 31 December 2014 and 1 January 2015	–	–	–
Amortisation expense	712	8,430	9,142
Effect of foreign currency exchange differences	(55)	(25)	(80)
At 31 December 2015	657	8,405	9,062
CARRYING AMOUNTS			
At 31 December 2015	2,527	106,729	109,256
At 31 December 2014	–	–	–

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16. OTHER INTANGIBLE ASSETS (Continued)

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight line basis over the following periods:

Software	3 – 5 years
Technical knowhow and patents	10 years

Technical knowhow and patents represent patented technical knowledge and techniques acquired through acquisitions of subsidiaries to develop and commercialise jetpack products and solar powered aircrafts including costs of patents registered in the names of the acquirees. The various patents were registered in various countries and will expire in approximately 10 years from the date of registration.

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 April 2014	25,600
Disposal	(12,608)
Gain on changes in fair value recognised in profit or loss (note 8)	108
At 31 December 2014	13,100
Gain on changes in fair value recognised in profit or loss (note 8)	600
At 31 December 2015	13,700

Notes: Investment properties represent the residential premises located in Hong Kong.

The fair values of the Group's investment properties at 31 December 2015 and 31 December 2014 have been arrived at on the basis of a valuation carried out on that day by Grant Sherman Appraisal Limited, an independent qualified professional valuer that is not connected with the Group.

The fair value was determined based on the "Direct Comparison Method", where the value is assessed by reference to the comparable properties of similar size, character and location, factoring in all the respective advantages and disadvantages of each property in order to arrive at the comparison of capital value.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes were measured using the fair value model and were classified and accounted for as investment properties.

At 31 December 2015 and 31 December 2014, no investment property in the Group is pledged.

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17. INVESTMENT PROPERTIES (Continued)

The carrying amounts of investment property shown above is located in:

	2015 HK$'000	2014 HK$'000
Hong Kong	**13,700**	13,100

The fair value measurements for the Group's investment property is categorised as level 3 (see note 3). The following table gives information about how the fair values of the investment property as at 31 December 2015 and 31 December 2014 are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised level 3 based on the degree to which the inputs to the fair value measurements is observable.

Property	**Fair value hierarchy**	**Valuation technique & key input**	**Significant unobservable inputs**	**Relationship of unobservable inputs to fair value**
Property – located in Hong Kong Island, Hong Kong	Level 3	Direct comparison method The key input is price per square foot	Price per square foot, using market direct comparable and taking into account of location and other individual factors such as age and location of the property, of HK$14,715 per square foot as at 31 December 2015 (31 December 2014: HK$14,071 per square foot)	A slight increase in the price per square foot will increase significantly the fair value

During the year ended 31 December 2015 and from 1 April 2014 to 31 December 2014, there were no transfers between level 1 and level 2, or transfers into or out of level 3.

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For the year ended 31 December 2015

18. GOODWILL

	HK$'000
COST	
At 1 April 2014, 31 December 2014 and 1 January 2015	84,054
Addition arising from acquisition of subsidiaries (note 35)	71,746
At 31 December 2015	155,800
IMPAIRMENT	
At 1 April 2014	36,393
Impairment loss recognised in the period	34,160
At 31 December 2014 and 1 January 2015	70,553
Impairment loss recognised in the year	13,501
At 31 December 2015	84,054
CARRYING VALUES	
At 31 December 2015	71,746
At 31 December 2014	13,501

For the purposes of impairment testing, goodwill has been allocated to three individual cash generating units ("CGU"), being 3 groups of subsidiaries operating in 1) paper business; 2) development and commercialisation of jetpack products business, and 3) development and commercialisation of solar powered aircrafts business.

The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2015 allocated to these 3 CGUs are as follows:

	31.12.2015 HK$'000	31.12.2014 HK$'000
Paper business	**–**	13,501
Development and commercialisation of jetpack products	**32,364**	–
Development and commercialisation of solar powered aircrafts	**39,382**	–
	71,746	13,501

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18. GOODWILL (Continued)

The Group conducted impairment review on goodwill attributable to CGU operating in paper business at the end of the reporting period by reference to its estimated recoverable amount. The recoverable amount of the CGU has been determined based on a value-in-use calculation. Impairment loss amounting to approximately HK$13,501,000 was recognised in respect of the CGU operating in paper business for the year ended 31 December 2015 due to the continuous deterioration of performance (period ended 31 December 2014: HK$34,160,000). The recoverable amount of the CGU, determined by using value-in-use, was HK$23,881,000. The impairment calculation used cash flow projections based on financial budgets approved by the directors of the Company covering a five-year period, with post-tax discount rate of 9.97% (31 December 2014: 9.53%). The cash flows beyond the five-year period were extrapolated using a steady growth rate of 3% (31 December 2014: 3%). The growth rate was based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry.

The Group also conducted impairment reviews on goodwill attributable to CGUs operating in development and commercialisation of jetpack products business ("Jetpack CGU") and solar powered aircrafts business ("Aircrafts CGU") at the end of the reporting period by reference to respective CGU's value-in-use and assessed that no impairment was necessary. The impairment calculation used cash flow projections based on financial budgets approved by the directors of the company covering a 5-year period for Jetpack CGU and Aircrafts CGU, with post-tax discount rate of 17.95% for Jetpack CGU and 24.08% for Aircrafts CGU. The cash flows beyond the 5-year period were extrapolated using a steady growth rate of 2% for both Jetpack CGU and Aircrafts CGU. The growth rate was based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry.

The key assumptions for the value-in-use ("VIU") calculation related to the estimation of cash flows included gross margin and discount rate. Gross margin represents budgeted gross margin, which is based on the management's expectation for the market development. The discount rate used is post-tax rates that reflect current market assessments of the risks specific to the relevant industry.

The following table illustrates the effect on VIU of reasonably possible changes to key assumptions for Jetpack CGU and Aircrafts CGU respectively. This reflects the sensitivity of VIU to each key assumption on its own and it is possible that more than one favourable and/or unfavourable change will occur at the same time. The directors of the Company consider that a reasonably possible unfavourable change in key assumptions will not lead to the goodwill impairment losses. However, as both of the CGUs are in development stage, a significant unfavourable change in any of the key assumptions could cause an impairment loss to be recognised in respect of these CGUs.

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For the year ended 31 December 2015

18. GOODWILL (Continued)

Jetpack CGU – Martin Aircraft Company Limited ("MACL")

At 31 December 2015	Favourable change	Unfavourable change
Perpetual growth rate (current model: 2%)	+1%	–1%
Increase/(decrease) in VIU (HK$'000)	5,809	(5,179)
Discount rate (current model: 17.95%)	–10% to 16.15%	+10% to 19.74%
Increase/(decrease) in VIU (HK$'000)	26,210	(20,170)

Aircrafts CGU – Solar Ship Inc. ("Solar Ship")

At 31 December 2015	Favourable change	Unfavourable change
Perpetual growth rate (current model: 2%)	+1%	–1%
Increase/(decrease) in VIU (HK$'000)	3,579	(3,275)
Discount rate (current model: 24.08%)	–10% to 21.68%	+10% to 26.49%
Increase/(decrease) in VIU (HK$'000)	19,973	(15,512)

19. INVESTMENT IN AN ASSOCIATE

	31.12.2015 HK$'000	31.12.2014 HK$'000
Cost of investment in an associate	11,634	–
Impairment of an associate upon initial recognition (note 8)	(6,690)	–
	4,944	–
Share of post-acquisition loss and other comprehensive expense	(654)	–
	4,290	–

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19. INVESTMENT IN AN ASSOCIATE (Continued)

On 21 September 2015, the Company and SkyX Limited ("SkyX") entered into a preferred shares purchase agreement ("PSP Agreement"), pursuant to which the Company agreed to acquire 738,916 preferred shares of SkyX for consideration amounted to US$1,500,000 and upon SkyX fulfilling certain conditions ("SkyX Conditions"), the Company will further acquire an additional 1,268,634 preferred shares of SkyX for an additional cash consideration amounting to US$3,500,000. In addition, immediately following the satisfaction of all SkyX Conditions and ending 24 months thereafter, the Company shall have the right to purchase all remaining issued and outstanding ordinary shares of SkyX at a consideration equal to a valuation of SkyX at that time ("Buyout Option"). Furthermore, the Company and the founding shareholder of SkyX ("Original Shareholder") shall each have an option, pursuant to which the Original Shareholder may require the Company to purchase, or the Company may require the Original Shareholder to sell. certain shares of SkyX (as adjusted for any share split, reverse share split, issuance of bonus shares, reclassification or similar transaction) held by the Original Shareholder upon fulfilling of the SkyX Conditions. The directors of the Company are of the opinion that the derivatives contained in the PSP Agreement is insignificant as at 31 December 2015 as SkyX is only at the start-up phase and the future cash flows cannot be reliably measured. Furthermore, the fair value of the Buyout Option is insignificant as the exercise price will be based on the SkyX valuation at the date.

The Company currently holds 738,916 preferred shares of SkyX which are currently convertible into 738,916 ordinary shares of SkyX, subject to anti-dilution adjustments. All preferred shares of SkyX to be acquired by the Company pursuant to the PSP Agreement will be convertible into ordinary shares of SkyX upon subscription. The Company will hold 42.5% of the ordinary share capital of SkyX when all the 738,916 preferred shares are converted based on the number of ordinary shares in issue as at 31 December 2015. Upon the Company's purchase and conversion of the additional 1,268,634 preferred shares of SkyX upon satisfaction of SkyX Conditions, the Company's shareholding in SkyX will be approximately 66.8%, based on the number of ordinary shares in issue as at 31 December 2015.

As the Group's share of the fair value of the net identifiable assets of SkyX on the subscription date amounted to only HK$4,944,000, which mainly represented bank balances and cash, an impairment loss upon initial recognition amounting of the Group's investment in the associate to HK$6,690,000 was recognised.

Details of the Group's associate at the end of the reporting period are as follow:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			2015	2014	**2015**	2014	
SkyX Limited	BVI	Israel	**42.5% (note)**	–	**42.5% (note)**	–	Development of remotely pilot aircraft technology

Note: The Group is able to exercise significant influence over SkyX in view of its investment in currently convertible preferred shares, and it can appoint one out of three directors of SkyX pursuant to the Articles of Association of SkyX. Furthermore, in terms of the Articles of Association of SkyX, preferred shareholders shall be entitled to vote on all matters with respect to which the ordinary shareholders are entitled to vote, with the number of votes equal to the number of ordinary shares into which such holder's preferred shares could be converted. Such votes would be counted together with all other shares of SkyX having general voting power and not be counted as a separate class. In addition, the preferred shareholders are entitled to share in ordinary dividends on a pro rata basis as if their preferred shares had been converted into ordinary shares prior to such declaration of dividends.

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20. DERIVATIVES FINANCIAL ASSETS

	2015 HK$'000	2014 HK$'000
Derivatives – Swap Right (as defined in note 35(a))	**20,116**	–
Derivative – subscription right of Convertible Securities (as defined in note 35(a))	**31,184**	–
	51,300	–

During the year ended 31 December 2015, the Group entered into an investment agreement with MACL as set out in note 35(a). The agreement contains derivatives. During the year ended 31 December 2015, loss arising on change in fair value of Swap Right and subscription right of Convertible Securities amounted to approximately HK$234,000 and HK$429,000 respectively (2014: nil).

21. PREPAID LEASE PAYMENTS

	HK$'000
At 1 April 2014	8,949
Amortisation charge to profit or loss	(36)
Disposal (note 36)	(8,913)
At 31 December 2014	–
Addition	97,320
Amortisation charge to profit or loss	(203)
Exchange alignment	(3,011)
At 31 December 2015	94,106

	2015 HK$'000	2014 HK$'000
Analysed for reporting purposes as:		
Non-current assets	**91,749**	–
Current assets	**2,357**	–
	94,106	–

At 31 December 2015, the prepaid lease payments represent cost of land use rights in respect of land located in the PRC. The purpose of the leased land is to build a technology research centre to support the In-depth Space business.

During the period ended 31 December 2014, the Group disposed of the previous land use rights through the disposal of Miracle True Investment Limited and its subsidiary ("Miracle True Group") to an independent third party. Details of this disposal are as set out in note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22. BANK BALANCES AND CASH/TIME DEPOSIT/PLEDGED DEPOSIT

	2015 HK$'000	2014 HK$'000
Bank balances and cash (note a)	**1,228,556**	1,485,818
Time deposit (note b)	**125,133**	–
Pledged deposit (note c)	**143,280**	187,575

(a) The bank balances carry interest rates ranging from 0.001% to 4.76% (31 December 2014: 0.001% to 4.35%) per annum.

(b) The time deposit at 31 December 2015 carries interest rate at 1.35% per annum and has an original maturity of more than three months. The time deposit will be realised within one year.

(c) Pledged deposit represents a deposit pledged to a bank to secure a bank borrowing granted to the Group as set out in note 26. It carries fixed interest rate ranging from 4.2% to 4.5% per annum (31 December 2014: 4.05% per annum).

The Group's bank balances and cash, time deposit and pledged deposit that are denominated in currencies other than the functional currency of the group entities are set out below:

	2015 '000	Equivalent to HK$ '000	2014 '000	Equivalent to HK$ '000
RMB	**601,286**	**717,935**	1,295,049	1,619,464
USD	**81,397**	**631,021**	5,501	42,092
NZD	**12,553**	**66,572**	–	–
CAD	**3,003**	**16,777**	–	–

23. INVENTORIES

	2015 HK$'000	2014 HK$'000
Raw materials	**5,087**	3,254
Work in progress	**5,807**	10,724
Finished goods	**33,143**	387
	44,037	14,365

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24. TRADE AND OTHER RECEIVABLES

For the year ended 31 December 2015 and the period ended 31 December 2014, the Group allowed an average credit period of 0 to 60 days to its trade customers.

Before accepting any new customer, the Group management would assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed from time to time. No allowances for doubtful debts are recognised against trade receivables at 31 December 2015 and 31 December 2014 based on estimated recoverable amount determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

The following is an aged analysis of trade receivables presented based on the invoice date which approximates the respective revenue recognition date, at the end of the reporting period.

	31.12.2015 **HK$'000**	31.12.2014 HK$'000
Trade receivables		
0 – 30 days	**297,995**	7,835
31 – 60 days	**9,637**	7,056
61 – 90 days	**1,681**	3,285
91 – 180 days	**1,129**	292
181 – 365 days	**4**	146
	310,446	18,614
Deposits and other receivables	**11,994**	2,523
Interest receivables	**10,906**	4,237
Loan receivable (note a)	**–**	6,346
Prepayment for advertising	**11,978**	–
Other prepayments	**12,737**	1,691
	358,061	33,411

The Group did not hold any collateral over these balances.

Note:

(a) Amount represents interest free loan advanced to Martin Aircraft Company Limited ("MACL") amounting to AUD1,000,000 (equivalent to approximately HK$6,346,000). During the year ended 31 December 2015, the balance was eliminated on consolidation upon acquisition of MACL as set out in note 35a.

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For the year ended 31 December 2015

24. TRADE AND OTHER RECEIVABLES (Continued)

An amount due from a related company is included in the above trade receivables. Maximum trade receivable from the related company, New Spring Label, outstanding during the year amounts to HK$7,734,000. Disclosure pursuant to section 161B of the Companies Ordinance is as follows:

	2015 **HK$'000**	2014 HK$'000
New Spring Label		
0 – 30 days	–	1,433
31 – 60 days	–	1,412
61 – 90 days	–	2,011
91 – 180 days	–	198
181 – 365 days	–	113
	–	5,167

The amount due from a related company is unsecured, non-interest bearing, and trading in nature with credit period of 30 days.

The Group's trade and other receivables that are denominated in currencies other than the functional currency of the group entities are set out below:

	2015 **Equivalent to** **HK$'000**	2014 Equivalent to HK$'000
USD	**11,612**	2,689
AUD	–	6,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

24. TRADE AND OTHER RECEIVABLES (Continued)

Aging of trade receivables which are past due but not impaired:

	2015	2014
	HK$'000	HK$'000
Overdue by:		
0 – 30 days	**276,761**	5,303
31 – 60 days	**1,962**	2,625
61 – 90 days	**82**	143
91 – 180 days	**1**	294
	278,806	8,365

Included in the trade receivables overdue by 0-30 days are balances arising from the sales of two "Clouds" amounting to approximately RMB223,500,000 (equivalent to HK$266,859,000). These trade receivable are due from local government related bodies and despite the lack of track record, management consider that these customers have solid financial background. As at the date that these consolidated financial statements were authorised for issue, RMB77,400,000 (equivalent to HK$92,416,000) of such receivables were subsequently settled.

The remaining trade receivables which are past due but not impaired related to customers that had good track records with the Group. There has not been a significant change in the credit quality and the balances were still considered fully recoverable.

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For the year ended 31 December 2015

25. TRADE AND OTHER PAYABLES, AND DEFERRED REVENUE/LONG TERM PAYABLE

The following is an aged analysis of trade payables and note payables presented based on the invoice date at the end of the reporting period.

	2015 HK$'000	2014 HK$'000
Trade payables		
0 – 90 days	**16,480**	9,561
Over 90 days	**3,832**	3,753
	20,312	13,314
Deferred revenue	**–**	5,719
Deposit received	**536**	106
Accrued salary	**15,090**	10,677
Other payables and accruals (note a)	**45,677**	45,059
Other tax payables	**38,441**	786
Long term payable (note b)	**–**	345
	120,056	76,006
Presented on the consolidated statement of financial position as:		
Long term payable	**–**	345
Trade and other payables	**120,056**	75,661
	120,056	76,006

All Group's trade payables are denominated in the functional currency of the group entities.

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Notes:

(a) As at 31 December 2014, included in other payables and accruals is a balance due to a related company of approximately HK$41,463,000 (2015: Nil) mainly in relation to the financial advisory services on the acquisition of MACL performed for the Company. The balance is due to REORIENT Financial Markets Limited ("REORIENT"). REORIENT is ultimately a wholly-owned subsidiary of REORIENT Group Limited ("RGL"), a listed company in the Stock Exchange, and Mr. Ko, an executive director and a shareholder of the Company, is a director and the controlling shareholder of RGL. The amount is unsecured, interest free and repayable on demand and was fully settled during the year ended 31 December 2015.

As at 31 December 2015, balance of other payables and accruals includes approximately HK$13,742,000 (31 December 2014: Nil) due to Mr. Ng. The amount is unsecured, interest-free and repayable on demand.

(b) As at 31 December 2014, amount represents retention money for construction in progress payable over one year but within two years from the end of the reporting period (2015: Nil).

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For the year ended 31 December 2015

26. BANK BORROWINGS

	2015 HK$'000	2014 HK$'000
Secured borrowings repayable more than two years but not more than five years (note)	**142,397**	140,000
	142,397	140,000

Note: As at 31 December 2015, borrowings carried interest at three-month HIBOR plus a margin of 2.8% (31 December 2014: three-month HIBOR plus a margin of 2.8%) which is approximately 3.19% (31 December 2014: 3.18%). Balances as at 31 December 2015 and 31 December 2014 are secured by pledged deposits (note 22).

27. CONVERTIBLE DEBENTURE

This represents an unsecured convertible debenture issued by Solar Ship. The convertible debenture is denominated in Canadian dollars ("CAD"), outstanding with par value of CAD1,000,000(equivalent to approximately HK$6,246,000) bearing interest at 12% per annum and maturing in November 2016. The convertible debenture holders are entitled to convert the convertible debenture into common shares of Solar Ship at a price of CAD100 per share.

The convertible debenture contain two components, liability and equity elements. The equity element is presented in equity heading "equity component of convertible debenture of a subsidiary". The effective interest rate of the liability component is 14% per annum.

28. OBLIGATIONS UNDER FINANCE LEASE

	2015 HK$'000	2014 HK$'000
Analysed for reporting purposes as:		
Current liabilities	**233**	1,400
Non-current liabilities	**–**	233
	233	1,633

The Group leases a certain of its machinery under finance lease. The remaining contracted lease term is within 1 years. Interest rates are fixed at the contract date. For the year ended 31 December 2015, the average effective borrowing rate (which was also equal to contracted interest rate) was 3% (period ended 31 December 2014: 3%) per annum. The leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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28. OBLIGATIONS UNDER FINANCE LEASE (Continued)

	Minimum lease payments		Present value of minimum lease payments	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance lease				
Within one year	**268**	1,610	**233**	1,400
In more than one year but not more than two years	**–**	268	**–**	233
	268	1,878	**233**	1,633
Less: Future finance charges	**(35)**	(245)	**–**	–
Present value of lease obligations	**233**	1,633	**233**	1,633
Less: Amount due for settlement within one year shown under current liabilities			**(233)**	(1,400)
Amount due for settlement after one year			**–**	233

The Group's obligations under finance lease are secured by the lessors' charge over the leased assets (note 15).

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29. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior periods:

	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1 April 2014	(185)	28	(157)
Credit (charge) to profit or loss	66	(28)	38
At 31 December 2014	(119)	–	(119)
Credit to profit or loss	52	–	52
At 31 December 2015	(67)	–	(67)

At the end of the reporting period, the Group had unused tax losses of approximately HK$55,251,000 (31 December 2014: approximately HK$24,112,000) available for offset against future profits. No deferred tax asset has been recognised for such losses as at 31 December 2015 due to the unpredictability of future profit streams. The tax losses in PRC may be carried forward for 5 years. The tax losses in Canada may be carried forward for 20 years. The tax losses in Hong Kong and New Zealand maybe carried forward indefinitely.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$83,385,000 (31 December 2014: HK$352,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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For the year ended 31 December 2015

30. SHARE CAPITAL

Ordinary shares	**Number of shares**	**Equivalent to** HK$'000
Authorised:		
Ordinary shares of HK$0.01 each at 1 April 2014	10,000,000,000	100,000
Reclassification (note a)	(2,683,333,332)	(26,833)
At 31 December 2014 and 2015	7,316,666,668	73,167
Issued and fully paid:		
At 1 April 2014	1,449,501,125	14,495
Subscription of shares (note a)	1,666,666,668	16,667
Subscription of shares (note b)	289,900,000	2,899
At 31 December 2014	3,406,067,793	34,061
Issue of ordinary shares upon conversion of preferred shares (note c)	2,307,666,666	23,076
At 31 December 2015	5,713,734,459	57,137

	Number of shares	**Equivalent to** HK$'000
Preferred shares		
Authorised:		
Preferred shares of HK$0.01 each at 1 April 2014 Reclassification (note a)	2,683,333,332	26,833
At 31 December 2014 and 2015	2,683,333,332	26,833
Issued:		
At 1 April 2014	–	–
Subscription of shares (note a) partially paid of HK$0.004 each	2,683,333,332	10,733
At 31 December 2014	2,683,333,332	10,733
Settlement of remaining share subscription price (note a)	–	16,100
Conversion of preferred shares (note c)	(2,307,666,666)	(23,076)
Issued and fully paid of HK$0.01 each at 31 December 2015	375,666,666	3,757

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30. SHARE CAPITAL (Continued)

Notes:

a. On 29 May 2014, the Company and certain subscribers ("Subscribers") entered into a subscription agreement ("Subscription Agreement"), pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 4,350,000,000 subscription shares ("Subscription Share(s)"), comprising 1,666,666,668 new ordinary shares and 2,683,333,332 new preferred shares ("preferred shares") at an issue price of HK$0.08 per Subscription Share. The aggregate gross subscription price amounts to approximately HK$348,000,000. The subscription was completed on 22 August 2014 pursuant to the specific mandate obtained at the special general meeting of the Company held on 21 August 2014 and according to the terms of the Subscription Agreement, 1,666,666,668 new ordinary shares have been duly allotted and issued as fully paid and 2,683,333,332 preferred shares have been duly allotted and issued as partially paid at HK$0.004 per preferred share, representing 5% of the total issue price. In the event that by the last day of the relevant payment dates (i.e. 22 February 2015 and 22 February 2016), the relevant holders of the preferred shares have not paid in full its balance of the aggregate issue price of the preferred shares, such preferred shares issued to such holders of the preferred shares will be forfeited.

   As one of the conditions precedent to the Subscription Agreement, the Company has reclassified and redesignated the existing shares of the Company of HK$0.01 each in the authorised share capital of the Company into 7,316,666,668 ordinary shares of HK$0.01 each and 2,683,333,332 preferred shares of HK$0.01 each.

   Each preferred share is convertible into one ordinary share by the preferred shareholder serving the conversion notice to the Company within the conversion period, without the payment of any additional consideration after the preferred shares have been fully paid according to the terms set out in the Subscription Agreement. The conversion period commences from 22 August 2014 and ends on 22 August 2016.

   The holders of the preferred shares are not entitled to attend or vote at any general meeting of the Company and none of the preferred shares shall receive any dividend out of the funds of the Company available for distribution.

   During the year ended 31 December 2015, the Company received approximately HK$203,919,000 from the Subscribers to pay off the remaining balance of the partially paid preferred shares. HK$16,100,000 was credited to the preferred shares account while the remaining HK$187,819,000 was recorded in the preferred share-share premium account to pay for 2,683,333,332 of the preferred shares in full.

b. On 12 September 2014, 14 September 2014 and 15 September 2014, the Company entered into subscription agreements pursuant to which the Company has conditionally agreed to allot and issue aggregate 289,900,000 ordinary shares at the subscription price of HK$5.386 per share. None of the subscribers were connected persons of the Company. The subscription of ordinary shares was completed on 29 September 2014. The gross proceeds received in respect of this subscription was approximately HK$1,561,401,000.

c. During the year ended 31 December 2015, the Group received notices from the relevant holders of the fully paid preferred shares to convert the 2,307,666,666 fully paid preferred shares into ordinary shares. The amount transferred from preferred share capital to ordinary share capital was approximately HK$23,076,000. At the same time, HK$161,538,000 was transferred from the share premium-preferred share account to the share premium-ordinary share account.

31. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

The Group operates a Mandatory Provident Fund Scheme ("MPF" Scheme) for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which is matched by employees. The total costs charged to the consolidated statement of profit or loss and other comprehensive income of approximately HK$112,000 for the year ended 31 December 2015 (period ended 31 December 2014: HK$128,000) represent retirement benefit contributions payable to the MPF Scheme by the Group.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. The total costs charged to the consolidated statement of profit or loss and other comprehensive income of approximately HK$7,781,000 for the year ended 31 December 2015 (period ended 31 December 2014: HK$2,353,000) represent retirement benefit contributions payable to this scheme by the Group.

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32. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 31 July 2012, a share option scheme (the "Scheme") was adopted by the Company. The purpose of the Scheme is to enable the Company to provide incentive to participants in recognition of their contribution to the Group. The directors of the Company may offer to grant any employee or director of the Company or any adviser, consultant, agent, contractor, customers and supplier of any member of the Group or whom the Board in its sole discretion considers eligible for the scheme on the basis of his or her contribution to the Group.

On 26 August 2014, a total of 67,747,000 share options under the Scheme were granted (the "2014 Share Options"). On 30 September 2015, the Company modified the 2014 Share Options, and the exercise price was repriced from HK$5.386 to the then current market price of HK$1.604, together with an extended vesting period (the"2014 Repriced Options"). On 30 September 2015, a total of 70,000,000 new share options under the Scheme were granted (the "2015 Share Options"). The details of these share options are summarised as follows:

	% of the total share options	2014 Share Options		2014 Repriced Options		2015 Share Options	
		Vesting period	Exercisable period	Vesting period	Exercisable period	Vesting period	Exercisable period
Tranche 1	33%	26 August 2014 – 26 August 2015	26 August 2015 to 25 August 2019	Immediately vested on 30 September 2015	30 September 2015 to 31 December 2017	30 September 2015 – 30 September 2016	30 September 2016 to 29 September 2019
Tranche 2	33%	26 August 2014 – 26 August 2016	26 August 2016 to 25 August 2019	30 September 2015 – 30 September 2016	30 September 2016 to 31 December 2017	30 September 2015 – 30 September 2017	30 September 2017 to 29 September 2019
Tranche 3	34%	26 August 2014 – 26 August 2017	26 August 2017 to 25 August 2019	30 September 2015 – 30 September 2017	30 September 2017 to 31 December 2017	30 September 2015 – 30 September 2018	30 September 2018 to 29 September 2019
Recognised as expenses for the year ended 31 December 2015 (HK$)			42,614,000		11,096,014		6,081,725
Number of share options granted to executive directors of the Company			24,900,000		24,900,000		15,900,000
Number of share options granted to employees of the Company			42,847,000		42,637,000		54,100,000
Total number of share options granted			67,747,000		67,537,000		70,000,000
Exercise price (HK$)			5.386		1.604		1.604
Grant date/modification date			26 August 2014		30 September 2015		30 September 2015
Fair value on grant date (HK$)			115,074,000		N/A		46,545,000
Fair value on modification date (HK$)			14,182,000		36,271,000		N/A
Share price at the date of grant (HK$)			5.15		1.59		1.59
Exercise price (HK$)			5.386		1.604		1.604
Expected volatility			42.49%		56.59%		56.28%
Risk-free interest rate (%)			1.26%		0.77%		0.78%
Exercise multiple			2.2-2.8		2.2-2.8		2.2 – 2.8
Expected dividend yield			Nil		Nil		Nil

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32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table lists the inputs to the fair value as at 30 September 2015 of the 2014 Share Options/Repriced Options:

	2014 Share Options	2014 Repriced Options
Share price at the date of modification (HK$)	N/A	1.59
Exercise price (HK$)	5.386	1.604
Expected volatility	56.59%	59.00%
Risk-free interest rate (%)	0.77%	0.43%
Exercise multiple	2.2 – 2.8	2.2 – 2.8
Expected dividend yield	Nil	Nil

The incremental fair value upon modification of HK$22,089,000 was calculated as the difference between the fair value of the 2014 Repriced Options and that of the 2014 Share Options, estimated as at 30 September 2015, being the date of the modification.

The following table discloses movements of the Company's share options held by employees and directors during the year:

Option type	**Outstanding at 1 January 2015**	**Granted during year**	**Forfeited during year**	**Outstanding at 31 December 2015**
2014 Share Options/2014 Repriced options	67,747,000	–	(210,000)	67,537,000
2015 Share Options	–	70,000,000	–	70,000,000
Total	67,747,000	70,000,000	(210,000)	137,537,000

Option type	Outstanding at 1 January 2014	Granted during year	Forfeited during year	Outstanding at 31 December 2014
2014 Share Options	–	67,747,000	–	67,747,000

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32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

31 December 2015
2014 Repriced Options

Number of options	Exercise price HK$ per share	Vesting period	Exercise period
22,287,210	1.604	Immediately vested on 30 September 2015	30 September 2015 to 31 December 2017
22,287,210	1.604	30 September 2015 – 30 September 2016	30 September 2016 to 31 December 2017
22,962,580	1.604	30 September 2015 – 30 September 2017	30 September 2017 to 31 December 2017
67,537,000			

2015 Share Options

Number of options	Exercise price HK$ per share	Vesting period	Exercise period
23,100,000	1.604	30 September 2015 – 30 September 2016	30 September 2016 to 29 September 2019
23,100,000	1.604	30 September 2015 – 30 September 2017	30 September 2017 to 29 September 2019
23,800,000	1.604	30 September 2015 – 30 September 2018	30 September 2018 to 29 September 2019
70,000,000			

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32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

31 December 2014

2014 Share Options

Number of options	Exercise price HK$ per share	Vesting period	Exercise period
22,356,510	5.386	26 August 2014 – 26 August 2015	26 August 2015 to 25 August 2019
22,356,510	5.386	26 August 2014 – 26 August 2016	26 August 2016 to 25 August 2019
23,033,980	5.386	26 August 2014 – 26 August 2017	26 August 2017 to 25 August 2019
67,747,000			

The Group recognised an expense of approximately HK$59,792,000 for the year ended 31 December 2015 (2014: HK$18,138,000) in relation to share options granted by the Company, and an expense of approximately HK$4,346,000 in relation to share options granted by its subsidiaries (2014: Nil). The directors consider that the financial impact the share-based payments granted by the subsidiaries is not material to the Group.

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt (which includes bank borrowings convertible debenture and obligation under finance lease net of cash and cash equivalent) and equity attributable to shareholders of the Company (comprising share capital and reserves).

The directors review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associate with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues as well as raising of new borrowings and repayment of existing borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	31.12.2015 **HK$'000**	31.12.2014 HK$'000
Financial assets		
Loans and receivables at amortised cost (including cash and cash equivalents)	**1,817,164**	1,838,390
Financial liabilities		
Liabilities at amortised cost	**267,719**	211,814

b. Financial risk management objectives and policies

The Group's major financial instruments include bank balances and cash, time deposit, pledged deposit, trade and other receivables, trade and other payables, obligation under finance lease, convertible debenture and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Certain subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 6.8% (31 December 2014: 19.4%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst all costs are denominated in the functional currency of the group entity.

Certain trade and other receivables, time deposit, pledged deposit, bank balances and cash and other payable of the Group are denominated in United States Dollars ("US$") and Renminbi ("RMB"), which are foreign currencies to the relevant group companies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Foreign currency sensitivity

The following details the Group's sensitivity to a 5% (31 December 2014: 5%) increase and decrease in the functional currency of each respective group company against the relevant foreign currencies. The percentages represent management's assessment of the reasonably possible change in exchange rates for the purpose of assessing foreign currency risk. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year/period end for the reasonably possible change in foreign currency rates.

For the year ended 31 December 2015, a positive number below indicates an increase in profit where the functional currency of the respective group entities weakens 5% against the relevant foreign currencies. For a 5% strengthening of functional currency against the relevant foreign currencies, there would be an equal and opposite impact on the profit, and the balances below would be negative.

For the period ended 31 December 2014, a positive number below indicates an decrease in loss where the functional currency of the respective group entities weakens 5% against the relevant foreign currencies. For a 5% strengthening of functional currency against the relevant foreign currencies, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	Impact of USD		Impact of RMB	
	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000	**01.01.2015 to 31.12.2015 HK$'000**	01.04.2014 to 31.12.2014 HK$'000
Sensitivity rate	**5%**	5%	**5%**	5%
Profit or loss	**24,057**	–	**29,639**	77,555

No sensitivity analysis is performed for the potential fluctuation of US$ balances in entities which functional currency is HK$ as these two currencies are pegged.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the period end exposure does not reflect the exposure during the year/period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate obligations under finance lease and convertible debenture (see note 28 for details of the obligation). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 26 for details of these borrowings) and bank balances (see note 22 for details of these bank balances). It is the Group's policy to keep certain of its borrowings at floating rate of interests so as to reduce the fair value interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate determined by the Hong Kong Interbank Offer Rate ("HIBOR") arising from the Group's HK$ denominated borrowings.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to variable interest rates bank borrowings at the end of the reporting period. Bank balances are excluded from sensitivity analysis as it is subject to minimal interest rate fluctuation during the year ended 31 December 2015.

For the year ended 31 December 2015, a 100 basis points increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates. If interest rate had been 100 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately HK$1,424,000.

For the period ended 31 December 2014, a 100 basis points increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates. If interest rate had been 100 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the period would increase/decrease by approximately HK$1,400,000.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the period end exposure does not reflect the exposure during the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has monitored the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is maintained at a satisfactory level which the Group does not have material irrecoverable debtors in the current and prior reporting years.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which the customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, the Group has a concentration of credit risk as approximately 92% (2014: 37%) of the total trade debtors were due from the Group's two largest customers. Both of the trade debtors as at 31 December 2015 have governmental background and despite the lack of track record, management consider that these customers have satisfactory credit quality.

Other than concentration of credit risk on liquid funds which are deposited with several reputable banks those mentioned above, the Group does not have any other significant concentration of credit risk.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

Liquidity risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity risk tables (Continued)

Liquidity risk tables

At 31 December 2015

	Weighted average interest rate	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
Trade and other payables	–	119,520	–	–	119,520	119,520
Obligation under finance lease	3%	268	–	–	268	233
Convertible bond	12%	6,181	–	–	6,181	5,569
Bank borrowings	3.19%	4,542	4,542	143,236	152,320	142,397
		130,511	4,542	143,236	278,289	267,719

At 31 December 2014

	Weighted average interest rate	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
Trade and other payables	–	69,836	–	–	69,836	69,836
Long term payable	–	–	345	–	345	345
Obligation under finance lease	3%	1,610	403	–	2,013	1,633
Bank borrowings	3.18%	4,447	4,459	144,459	153,365	140,000
		75,893	5,207	144,459	225,559	211,814

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if change in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

c. Fair value

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. ACQUISITION OF SUBSIDIARIES

	Principal activity	Place of incorporation/ operations	Class of shares held	Paid up issued share share capital	Proportion of ownership interest and voting power held by the Company indirectly 2015	2014	Date of acquisition	Proportion of shares acquired	Net consideration transferred HK$'000
2015									
MACL (note a)	Development and commercialisation of jetpack products	New Zealand	Ordinary shares	245,294,108	**22.68%**	–	23 February 2015	22.83%	83,237
Solar Ship (note b)	Development and commercialisation of solar powered aircrafts	Canada	Common shares	242,695	**32.58%**	–	29 May 2015	32.58%	81,884
									165,121

As at the respective acquisition dates during the year ended 31 December 2015, for the purpose of business expansion, the Company acquired 22.83% and 32.58% of the outstanding equity interest of MACL and Solar Ship respectively. In addition, as set out in more details in the notes below, as part of the acquisition agreements, the Company obtained rights to financial instruments containing potential voting rights to the Company for both investments ("the Conversion Rights"). Upon exercising these Conversion Rights, the Company's shareholding in MACL and Solar Ship will be approximately 52% and 54.42% respectively, determined based on the number of shares in issue as at the respective acquisition dates and as at 31 December 2015. The dilution effect of the convertible debenture and outstanding share options issued by MACL and Solar Ship is insignificant to the Company's shareholding in MACL and Solar Ship. As the Company has practical ability to exercise these Conversion Rights which gives the Company the current ability to direct the relevant activities of the respective investees, the directors of the Company consider the Company has control over MACL and Solar Ship. As a result, the Group applied the acquisition method in accounting for the acquisitions of MACL and Solar Ship.

Goodwill arose in these acquisitions because the considerations paid for the business combinations effectively included amounts in relation to the benefit of collaboration with the acquirees to develop cutting edge aviation and communication technologies which aimed at penetrating global markets. In addition, the Company could leverage on the acquirees' experiences on integrating technologies in revenue driving business. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Acquisition-related costs arising from these acquisitions have been excluded from the consideration transferred and have been recognised as an expense during the year, within the administrative expenses line item in the condensed consolidated statement of profit or loss and other comprehensive income.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. ACQUISITION OF SUBSIDIARIES (Continued)

Notes:

(a) On 19 December 2014, the Company and MACL entered into an investment agreement ("Investment Agreement"), pursuant to which upon MACL fulfilling certain conditions ("MACL Conditions"), the Company will (i) acquire up to 15,000,000 ordinary shares of MACL at an issue price of AUD0.40 per share from certain shareholders of MACL; (ii) subscribe for 40,813,636 new ordinary shares in MACL at an issue price of AUD0.40 per share; (iii) subscribe for convertible securities ("Convertible Securities") that are convertible into 57,500,000 new ordinary shares of MACL at an issue price of AUD0.40 per share; and (iv) subject to the completion of the subscription of the new ordinary shares per (ii) above, the Company is to incorporate a company ("HKCo") together with MACL in which the Company will contribute AUD2,000,000 (equivalent to approximately HK$12,692,000) and will hold 51% of interest. At any time prior to 19 June 2017, the Company has the swap right (the "Swap Right") to sell its 51% equity interest in HKCo to MACL which shall be satisfied by way of allotment and issuance of 89,250,000 MACL shares.

Pursuant to the Investment Agreement, as at 31 December 2014, the Company paid an interest bearing deposit on escrow (the "Deposit on Escrow") for approximately AUD21,000,000 (equivalent to approximately HK$133,277,000 as at 31 December 2014), where the deposit would be returned to the Company should MACL not meet the conditions set out in the Investment Agreement.

On 23 February 2015, the MACL Conditions were fulfilled. Accordingly, the Company subscribed for 40,813,636 new shares of MACL and acquired 14,950,000 existing shares of MACL for an aggregate amount of approximately AUD22,305,000 (equivalent to approximately HK$135,200,000). The Deposit on Escrow was released upon the completion of the acquisition.

After the above acquisition and subscription of shares in MACL, the Company holds approximately 22.83% of the MACL's issued share capital as at the acquisition date. The HKCo was incorporated on 12 March 2015 and both the Company and MACL have contributed AUD2,000,000 into the HKCo (approximately HK$24,742,000 in total). As at 31 December 2015, the Company had the right to acquire but had not acquired the Convertible Securities and had the right to exercise but had not exercised the Swap Right.

Subsequent to year ended 31 December 2015, the Company acquired and converted the Convertible Securities in full and exercised a major part of the Swap Right. Details are set out in note 44.

The acquisition allows the Group to benefit from the aviation and flying technology of MACL for the development of the civil near space flying apparatus and the wifi broadcasting technology.

Fair value of assets acquired and liabilities assumed at the date of acquisition

	HK$'000
Plant and equipment	3,881
Technical knowhow and patents for development and commercialisation of jetpack products	76,167
Other receivables	1,709
Bank balances and cash	167,043
Other payables	(20,076)
	228,724

The other receivables acquired in the transaction carried a fair value of HK$1,709,000. The gross contractual amounts of those receivables acquired amounted to HK$1,709,000 at the date of acquisition. None of the contractual cash flows are not expected to be collected at acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. ACQUISITION OF SUBSIDIARIES (Continued)

Notes: (Continued)

(a) (Continued)

Goodwill arising from acquisition

	Total HK$'000
Cash consideration transferred	135,200
Less: Fair value of derivative financial assets acquired	
– subscription right of Convertible Securities	(31,613)
– Swap Right	(20,350)
	83,237
Add: Non-controlling interests – share of net assets	171,962
Add: Non-controlling interests – share based payment reserve*	5,889
Less: Fair value of identifiable net assets acquired	(228,724)
Goodwill arising from acquisition	32,364

* As at the acquisition date, MACL had a share option scheme in terms of which share options over MACL's own shares were granted to its directors and employees. This share option scheme was not exchanged by the Group upon acquisition.

The non-controlling interests (77.17%) in MACL which represented present ownership interests in MACL recognised on acquisition date were measured at the proportion of the fair value of net assets of MACL attributable to the non-controlling interests.

Net cash inflow on acquisition of subsidiaries

	Year ended 31 December 2015 HK$'000
Consideration paid in cash	**(135,200)**
Add: bank balances and cash acquired	**167,043**
	31,843

MACL contributed no revenue and incurred a loss of HK$27,549,000 for the period from the date of acquisition to 31 December 2015.

If the acquisition has been completed on 1 January 2015, total revenue of the Group for the year ended 31 December 2015 would have been HK$496,008,000 and gain for the year ended 31 December 2015 would have been HK$67,928,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. ACQUISITION OF SUBSIDIARIES (Continued)

Notes: (Continued)

(b) On 3 April 2015, the Company and Solar Ship entered into an investment agreement, pursuant to which upon Solar Ship fulfilling certain conditions ("Solar Ship Conditions"), the Company will subscribe for 79,070 new common shares in Solar Ship, representing approximately 32.58% of the outstanding common shares in Solar Ship for consideration of CAD 17,000,000. Also on the same day, the Company and Solar Ship entered into an option agreement, pursuant to which the Company was granted the option ("Option") exercisable by the Company during the period from the completion of Solar Ship Conditions to 15 October 2016 (Toronto time) to subscribe for 116,279 additional common shares in Solar Ship for consideration of CAD 25,000,000 (equivalent to approximately HK$156,158,000), which will result in the Company holding approximately 54.42% of the outstanding common shares in Solar Ship. The dilution effect of the convertible debenture and outstanding share options issued by Solar Ship is insignificant to the Company's shareholding in Solar Ship.

On 29 May 2015, the Solar Ship Conditions were fulfilled. As a result, the Company subscribed for 79,070 new common shares in Solar Ship at the subscription money of CAD17,000,000 (equivalent to approximately HK$106,085,000), representing 32.58% of the outstanding common shares of Solar Ship. As at the date that these consolidated financial statements were authorised for issue, the Company has the right to exercise, but has not exercised, the Option.

The acquisition allows the Group to benefit from Solar Ship's aviation and flying technology for the development of In-depth Space services.

Fair value of assets acquired and liabilities assumed at the date of acquisition

	HK$'000
Plant and equipment	7,289
Technical knowhow and patents for development and commercialisation of solar powered aircrafts	50,159
Other receivables	8,151
Bank balances and cash	93,997
Tax recoverable	712
Other payables	(13,056)
Obligation under finance leases	(147)
Convertible debenture	(7,393)
	139,712

The other receivables acquired in the transaction carried a fair value of HK$8,151,000. The gross contractual amounts of those receivables acquired amounted to HK$8,151,000 at the date of acquisition. None of the contractual cash flows are not expected to be collected at acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. ACQUISITION OF SUBSIDIARIES (Continued)

Notes: (Continued)

(b) (Continued)

Goodwill arising from acquisition

	Total HK$'000
Cash consideration transferred	106,085
Less: Fair value of Option acquired	(24,201)
Net consideration transferred	81,884
Add: Non-controlling interests – share of net assets	87,951
Add: Non-controlling interests – share-based payment*	5,436
Add: Non-controlling interests – convertible debenture equity reserve	3,823
Less: Fair value of identifiable net assets acquired	(139,712)
Goodwill arising from acquisition	39,382

* As at the acquisition date, Solar Ship had a share option scheme in terms of which share options over Solar Ship's own shares were granted to its directors and employees. This share option scheme was not exchanged by the Group upon acquisition.

The non-controlling interests (67.42%) in Solar Ship which represented present ownership interests in Solar Ship recognised on acquisition date were measured at the proportion of the fair value of net assets of Solar Ship attributable to the non-controlling interests.

Net cash inflow on acquisition of subsidiaries

	Year ended 31 December 2015 HK$'000
Consideration paid in cash	**(106,085)**
Add: bank balances and cash acquired	**93,997**
	(12,088)

Solar Ship contributed no revenue and incurred a loss of HK$17,065,000 for the period from the date of acquisition to 31 December 2015.

If the acquisition has been completed on 1 January 2015, total revenue of the Group for the year ended 31 December 2015 would have been HK$496,008,000 and gain for the year ended 31 December 2015 would have been HK$67,728,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. ACQUISITION OF SUBSIDIARIES (Continued)

Fair value measurements of financial instruments

Some of the Group's financial assets are measured at fair value at the end of each reporting period.

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial instruments	Fair value as at			Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input(s)		
	Acquisition date HK$'000	31 December 2015 HK$'000	31 December 2014 HK$'000			Acquisition date	31 December 2015	31 December 2014
1) Subscription right of Convertible Securities	31,613	31,184	–	Level 3	Binomial Option pricing model is adopted and the key inputs are asset price, volatility, risk free rate, exercise price and discount rate in which the perpetual growth rate and discount rate are key inputs for the asset price	Volatility: 33.42% Risk fee rate: 1.93% Discount rate: 19.7% Perpetual growth rate: 2% Exercise price: AUD0.4/share	Volatility: 44.63% Risk fee rate: 2.19% Discount rate: 17.95% Perpetual growth rate: 2% Exercise price: AUD0.4/share	–
2) Swap Right	20,350	20,116	–	Level 3	Margrabe's Formula is adopted and the key inputs are swap assets price, correlation co-efficient and the volatilities of the swap assets in which the perpetual growth rate and discount rate are key inputs for the swap assets price	Volatility: 33.42% Perpetual growth rate: 2% Discount rate of MACL: 19.7% Discount rate of HKCo: 22.83% Correlation co-efficient: 0.9	Volatility: 44.63% Perpetual growth rate: 2% Discount rate of MACL: 17.95% Discount rate of HKCo: 22.74% Correlation co-efficient: 0.9	–
3) Option	24,201	N/A (note 1)	–	Level 3	Binomial Option pricing model is adopted and the key inputs are asset price, volatility, risk free rate, exercise price and discount rate in which the perpetual growth rate and discount rate are key inputs for the asset price	Volatility: 33.36% Risk fee rate: 0.63% Discount rate: 26.6% Perpetual growth rate: 2% Exercise price: CAD215/share	N/A (Note: The option is recognised in equity and is not subsequently remeasured.)	–

Note 1: The option is recognised in equity and is not subsequently remeasured.

For all the financial instruments above, slight increases in the perpetual growth rates or volatility used in isolation would result in significant increases in the fair value measurement of the derivatives and vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

36. DISPOSAL OF SUBSIDIARIES

On 26 June 2014, the Group disposed of Miracle True Group which holds a land use right in the PRC to an independent third party for a cash consideration of approximately HK$12,023,000.

Analysis of assets and liabilities over which control was loss:

	26.06.2014 HK$'000
Prepaid lease payment (note)	8,913
Bank balances and cash	22
Net assets disposed of	8,935

Gain on disposal of a subsidiary:

	26.06.2014 HK$'000
Consideration received	12,023
Net assets disposed of	(8,935)
Cumulative exchange differences in respect of the net assets of subsidiary reclassified from equity to profit or loss on loss of control of subsidiary	215
Gain on disposal	3,303

Net Cash inflow on disposal of a subsidiary:

	26.06.2014 HK$'000
Cash consideration	12,023
Less: bank balances and cash disposed of	(22)
	12,001

Note At 31 March 2014, the carrying amount of the prepaid lease payment was approximately HK$8,949,000, represented by approximately HK$8,733,000 in the non-current assets and approximately HK$216,000 in the current assets of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was approximately HK$356,000 (for the period ended 31 December 2014: HK$503,000). The Group's investment property is held for rental purposes. One of the properties was disposed during the period from 1 April 2014 to 31 December 2015 as set out in note 17. The property held has committed tenants for the next two years.

At the end of the period, the Group has contracted with tenants for the following future minimum lease payments:

	2015	2014
	HK$'000	HK$'000
Within one year	**360**	115
In the second to fifth year inclusive	**90**	–
	450	115

The Group as lessee

	2015	2014
	HK$'000	HK$'000
Minimum lease payments paid under operating leases for premises during the period	**6,607**	1,283

At the end of the period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2015	2014
	HK$'000	HK$'000
Within one year	**2,272**	3,054
In the second to fifth years inclusive	**2,056**	4,193
	4,328	7,247

As at 31 December 2015, operating leases relate to factory and offices with lease terms of 1 to 2 years (31 December 2014: 1 to 3 years). The Group does not have an option to purchase the leased assets at the expiry of the lease period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. CAPITAL COMMITMENTS

	2015 HK$'000	2014 HK$'000
Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of the acquisition of:		
Plant and equipment	**13,108**	18,317
A company	**–**	190,380
	13,108	208,697

39. PLEDGE OF ASSETS

At the end of the reporting period, certain assets of the Group were pledged to secure banking facilities and obligations under finance lease granted to the Group as follows:

	2015 HK$'000	2014 HK$'000
Plant and equipment under finance lease (note 15)	**4,038**	4,543
Pledge deposit (note 22)	**143,280**	187,575
	147,318	192,118

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. RELATED PARTY TRANSACTIONS

(i) Related party balances are set out in notes 24 and 25 to the consolidated financial statements.

(ii) During the year/period, the Group entered into the following transactions with its related companies:

Name of related companies	Nature	Notes	**01.01.2015 to 31.12.2015 HK$'000**	01.04.2014 to 31.12.2014 HK$'000
New Spring Label	Sales of packaging products	(a)	**15,448**	21,537
New Spring Label	Management fee income	(b)	**300**	666
Beautiking Investments Limited	Rental expenses	(c)	**180**	135
New Spring Group Co. Ltd	Rental expenses	(d)	**216**	162
Kuang-Chi Innovative Technology Limited	Research and development expenses	(e)	**–**	55,000
REORIENT	Advisory expenses	(f)	**8,036**	30,126
REORIENT	Share issue expenses	(g)	**–**	17,400
REF Financial Press Limited	Financial printing services expenses	(h)	**9**	784

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. RELATED PARTY TRANSACTIONS (Continued)

(ii) (Continued)

Notes:

(a) The sale of packaging products was mutually agreed by the Group and the related company.

(b) The management fee income was charged on a monthly fixed amount mutually agreed by the Group and the related company. Mr. Ng and Ms. Li are the directors and the controlling shareholders of this related company.

(c) The rental expenses paid were charged on a monthly fixed amount basis as mutually agreed by the Group and the related company. Mr. Ng and Ms. Li are the directors and the controlling shareholders of this related company.

(d) The rental expenses were charged on a monthly fixed amount basis as mutually agreed by the Group and the related company.

(e) The research and development expenses for the period ended 31 December 2014 relate to a technology development agreement signed on 22 August 2014 in terms of which the related party would provide consultancy services to the Company to develop a civil near space flying apparatus. The terms of the non-recurring agreement were mutually agreed between the Group and the related company.

(f) The advisory expenses represent financial advisory services in respect of the transactions contemplated under the acquisition of Solar Ship and other services. The terms of the non-recurring agreement were mutually agreed between the Group and the related company.

(g) The share issue expenses relate to the subscription of shares as set out in note 30a. The terms of the non-recurring agreement were mutually agreed between the Group and the related company.

(h) The financial printing services expenses represent printing fee for announcements, reports and circulars of the Company. The financial printing services fee was mutually agreed between the Group and the related company of which, Mr. Lau Man Tak, an independent non-executive director of the Company who resigned on 30 September 2015, is a director and the controlling shareholder.

(iii) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	01.01.2015 to 31.12.2015 HK$'000	01.04.2014 to 31.12.2014 HK$'000
Short-term benefits	**8,687**	2,171
Post-employment benefits	**3**	40
Share-based payments	**44,459**	6,484
	53,149	8,695

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(a) Details of the Company's principal subsidiaries as at 31 December 2015 and 31 December 2014 are disclosed as follows:

Name of subsidiary	Place of incorporation	Principal place of business	Issued and fully paid share/ registered capital	Percentage of nominal value of issued share/ registered capital directly held by the Company 31.12.2015	31.12.2014	Principal activities
Direct subsidiaries						
Sky Will Printing & Packaging (Holdings) Limited	BVI	Hong Kong	US$100	**100%**	100%	Investment holding
Martin Aircraft Company Limited	New Zealand	New Zealand	NZD39,304,595	**22.68%**	–	Development and commercialisation of the Martin Jetpacks
Solar Ship Inc.	Canada	Canada	CAD19,339,273	**32.58%**	–	Development of a transport platform
Indirect subsidiaries						
Kingdom Wealthy Limited	Hong Kong	Hong Kong	HK$2	**100%**	100%	Property investment
*New Spring Offset Printing (Shenzhen) Limited *新高準柯式印刷（深圳）有限公司	PRC	PRC	HK$12,000,000	**100%**	100%	Manufacture and trading of of packaging products
New Spring (SW) Printing & Packaging Limited 新高準（天安）印刷包裝有限公司	Hong Kong products	Hong Kong	HK$10,000	**100%**	100%	Trading of packaging
*Shenzhen Kuang Chi Space Technology Limited *深圳光啟空間技術有限公司	PRC	PRC	USD50,000,000	**100%**	–	Provision of in-depth space services and other innovative technology business
Sky Will Printing & Packaging Limited	Hong Kong	Hong Kong	HK$10,000	**100%**	100%	Investment holding and trading of packaging products
*Dongguan Space Technology City Company Limited *東莞空間科技城實業有限公司	PRC	PRC	USD35,000,000	**100%**	100%	Provision of innovative technology business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

(a) (Continued)

Name of subsidiary	Place of incorporation	Principal place of business	Issued and fully paid share/ registered capital	Percentage of nominal value of issued share/ registered capital directly held by the Company		Principal activities
				31.12.2015	31.12.2014	
*Dongguan Advanced Technology Institute *東莞前沿技術研究院	PRC	PRC	RMB10,000,000	**100%**	100%	Provision of innovative technology business
Kuang Chi Science Holdings Limited	HK	HK	HK$1	**100%**	100%	Provision of administrative services
*Shenzhen Kuang-Chi Dream Technology Company Limited *深圳光啓夢想科技有限公司	PRC	PRC	USD15,000,000	**100%**	100%	Provision of in-depth space services and other innovative technology business
#Shenzhen Kuang-Chi Manned Space Technology Company Limited #深圳光啟載人空間技術有限公司	PRC	PRC	RMB40,000,000	**80%**	71.43%	Provision of in-depth space services and other innovative technology business

Note:

(a) None of the subsidiaries had any debt securities outstanding as at the end of the reporting period or at any time during the reporting period.

* A wholly-foreign-owned enterprise established under the PRC law. The English name is for identification purpose only.

\# Sino-foreign joint venture company under PRC law.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Summarised financial information extracted from the consolidated financial statements prepared in accordance with the HKFRSs before intragroup eliminations in respect of subsidiaries that have material non-controlling interest is set out below.

	Principal activity	Place of incorporation/ operations	Class of shares held	Paid up issued share share capital	Proportion of ownership interest and voting rights held by the non-controlling interest		Loss allocated to non-controlling interest for the year/period ended		Balance of non-controlling interest as at	
					2015	2014	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
MACL	Development and commercialisation of jetpack products	New Zealand	Ordinary shares	245,294,108	77.32%	–	(22,557)	–	156,770	–
Solar Ship	Development and commercialisation of solar powered aircrafts	Canada	Common shares	242,695	67.42%	–	(12,392)	–	86,228	–
Other insignificant subsidiary that has non-controlling interest							(47)	–	9,869	–
							(34,996)	–	252,867	–

MACL

	31.12.2015 HK$'000
Non-current assets	153,423
Current assets	70,091
Current liabilities	(20,365)
Equity attributable to shareholders of the Company	(46,379)
Non-controlling interests	(156,770)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

MACL (Continued)

	From 23.02.2015 to 31.12.2015 HK$'000
Revenue	–
Other income	5,674
Expenses	(34,846)
Loss for the period	(29,172)
Other comprehensive expense	
Items that may be reclassified subsequently to profit and loss:	
Exchange differences on translating foreign operations	(740)
Total comprehensive expense for the period	(29,912)
Loss for the period attributable to:	
Shareholders of the Company	(6,616)
Non-controlling interests	(22,556)
	(29,172)
Total comprehensive expense attributable to:	
Shareholders of the Company	(6,784)
Non-controlling interests	(23,128)
	(29,912)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Solar Ship

	31.12.2015 HK$'000
Non-current assets	88,160
Current assets	47,634
Non-current liabilities	(5,569)
Current liabilities	(2,328)
Equity attributable to shareholders of the Company	(41,669)
Non-controlling interests	(86,228)

	From 29.05.2015 to 31.12.2015 HK$'000
Revenue	–
Other income	3,351
Expenses	(21,731)
Loss for the period	(18,380)
Other comprehensive expense	
Items that may be reclassified subsequently to profit and loss:	
Exchange differences on translating foreign operations	(351)
Total comprehensive expense for the period	(18,731)
Loss for the period attributable to:	
Shareholders of the Company	(5,988)
Non-controlling interests	(12,392)
	(18,380)
Total comprehensive expense attributable to:	
Shareholders of the Company	(6,103)
Non-controlling interests	(12,628)
	(18,731)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2015 HK$'000	2014 HK$'000
ASSETS AND LIABILITIES		
NON-CURRENT ASSETS		
Amounts due from subsidiaries	**1,031,816**	1,141,593
Investment in subsidiaries	**936,418**	629,731
Investment in an associate	**4,290**	–
Deposit paid for acquisition of a company	**–**	133,277
	1,972,524	1,904,601
CURRENT ASSETS		
Other receivables	**601**	6,794
Bank balances and cash	**259,133**	748
	259,734	7,542
CURRENT LIABILITY		
Other payables	**3,056**	42,751
	3,056	42,751
NET CURRENT ASSETS (LIABILITIES)	**256,678**	(35,209)
TOTAL ASSET LESS CURRENT LIABILITIES	**2,229,202**	1,869,392
NON-CURRENT LIABILITIES		
Bank borrowing	**142,397**	140,000
NET ASSET	**2,086,805**	1,729,392
CAPITAL AND RESERVES		
Share capital		
– Ordinary shares (note 30)	**57,137**	34,061
Share capital		
– Preferred shares (note 30)	**3,757**	10,733
Reserves	**2,025,911**	1,684,598
TOTAL EQUITY	**2,086,805**	1,729,392

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movement in reserves

	Share premium HK$'000	Share premium preferred share HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Shares-based payment reserve HK$'000	Total HK$'000
At 1 April 2014	254,893	–	103,941	(213,610)	–	145,224
Loss and total comprehensive income for the year	–	–	–	(132,198)	–	(132,198)
Subscription of shares (note 30a)	116,667	–	–	–	–	116,667
Subscription of shares (note 30b)	1,558,502	–	–	–	–	1,558,502
Transaction cost attributable to subscription of shares	(21,735)	–	–	–	–	(21,735)
Recognition of share-based payments	–	–	–	–	18,138	18,138
At 31 December 2014	1,908,327	–	103,941	(345,808)	18,138	1,684,598
Loss and total comprehensive income for the year	–	–	–	93,702	–	93,702
Subscription of shares (note 30a)	–	187,819	–	–	–	187,819
Exercise of convention right of preferred share	161,538	(161,538)	–	–	–	–
Deemed contribution to a subsidiary	–	–	–	–	59,792	59,792
At 31 December 2015	2,069,865	26,281	103,941	(252,106)	77,930	2,025,911

43. COMPARATIVE FIGURES

Certain comparative figures for the consolidated statement of financial position have been reclassified to conform with the current period's presentation.

44. EVENTS AFTER THE REPORTING PERIOD

With reference to the Investment Agreement on 29 February 2016, the Company has subscribed for the entire convertible securities in MACL and fully converted them into new ordinary shares of MACL for AUD23,020,000 (equivalent to HK$129,988,000). In addition, the Company also exercised 90% of the option for the allotment and issue of Swap Shares. The Company shall have the right to exercise the remaining 10% of the option prior to 22 August 2017.

After the allotment and issuance of new ordinary shares and Swap Shares of MACL, the Company holds approximately 52% of the enlarged issued share capital of MACL which, together with HKCo, continue to remain as subsidiaries of the Group. There is no net cash flows impact on the Group arising from these equity transactions.

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	Year ended 31 March			Period ended 31 December	**Year ended 31 December**
	2012	2013	2014	2014	**2015**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	–	81,178	113,433	79,464	**353,831**
(Loss) profit before tax	(4,790)	3,480	(37,332)	(152,674)	**9,777**
Income tax expense	–	(1,248)	(576)	(861)	**(14,761)**
(Loss) profit for the year	(4,790)	2,232	(37,908)	(153,535)	**(4,984)**
Attributable to:					
Shareholders of the Company	(4,790)	2,232	(37,908)	(153,535)	**30,012**
Non-controlling interest	–	–	–	–	**(34,996)**
	(4,790)	2,232	(37,908)	(153,535)	**(4,984)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March			As at 31 December	
	2012	2013	2014	2014	**2015**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	67,739	268,371	189,715	1,936,751	**2,457,909**
Total liabilities	(4,234)	(87,149)	(22,550)	(218,510)	**(282,911)**
	63,505	181,222	167,165	1,718,241	**2,174,998**
Share capital	574	12,079	14,495	34,061	**57,137**
Preferred share	–	–	–	10,733	**3,757**
Reserves	62,931	169,143	152,670	1,668,445	**1,861,237**
Equity attributable to Shareholders of the Company	63,505	181,222	167,165	1,713,239	**1,922,131**
Non-controlling interest	–	–	–	5,002	**252,867**
Total equity	63,505	181,222	167,165	1,718,241	**2,174,998**