2016
Annual Report

KUANGCHI SCIENCE LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)

KuangChi Science FUTURE IS NOW

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Song Dawei

Independent Non-executive Directors

Dr. Liu Jun
Dr. Wong Kai Kit
Ms. Cao Xinyi

AUDIT COMMITTEE

Ms. Cao Xinyi *(Chairperson)*
Dr. Liu Jun
Dr. Wong Kai Kit

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Law Wing Hee

AUDITOR

Deloitte Touche Tohmatsu

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Bermuda

Conyers Corporate Services (Bermuda) Limited
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Bermuda

PRINCIPAL BANKERS

Bank of Communications Company Limited
Shanghai Pudong Development Bank Co., Ltd.

STOCK CODE

439

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW AND PROSPECTS

The Group is principally engaged in the research and development and manufacture of innovative products for future technology businesses, and the provision of other innovative technology service solutions (the "Future Technology Business"). During the year, the Group recorded a net profit of HK$596,544,000. Gross profit was HK$198,446,000 and gross profit margin was 68.31%. Turnover of HK$290,492,000, representing an increase of 4.06% over last year. During the year, the Group also generated other gains, net of HK$816,969,000, which was mainly attributable to the gain on investments of the Group, amounting HK$808,628,000. Basic earnings per share from continuing operations increased to 11.34 HK cents.

The Future Technology Business – To design the future, to deliver the future

In recent years, ever-changing technology revolutions and industrial transformations worldwide have been pushing technology innovation to develop faster. Along with the in-depth integration and commercialisation of different innovative technologies, new tech products and services have gradually penetrated into human societies from all walks of life. Amongst all, smart cities are important to solving the long-standing problems in city development. Data shows that China has an economic loss exceeding RMB650 billion annually due to public safety incidents. In 2016, the environmental issues in China resulted in a direct loss of RMB9,244 billion. In 2015, natural disasters gave rise to a direct loss of approximately RMB608.5 billion for the agricultural industry in China. Building smart cities will significantly reduce the cost of city governance, prevent disasters, and minimise losses. Meanwhile, more than 500 cities in China has set building smart cities as a development goal. Chinese cities will follow the trend of building smart cities, which will promote rapid growth in demand for smart city development.

During the year, the Group put its focus on the Future Technology Business. The Group is committed to creating future smart cities. To achieve this, the Group is now developing and integrating different future technologies, including "future space" technology and "future artificial intelligence (AI)" technology, to provide a comprehensive range of innovative products, services and solutions, so as to enhance service efficiency, satisfy residents' needs, create better living quality and, in particular, solve the environmental and "global connection" issues that people are facing. Specifically, its objectives can be categorised into three aspects, namely safety, sustainability and space expansion. On safety, it emphasises on emergency response and disaster precaution and warning. On sustainability, it emphasises on environmental protection. On space expansion, it emphasises in particular on providing services to connect the world and remote areas.

For the "future space" technology business, the Group devotes to develop new technology and products for future space at different altitudes, and provides a comprehensive range of space services. Its self-developed products include "Cloud", "Traveller", "KuangChi Martin Jetpack", "KuangChi Solar Ship", etc. The products are used in wide-area internet-of-things (IoT) networking, optical remote sensing and telemetry, internet access, smart big data collection, private network and backbone communication, smart observation, emergency rescue, traffic and transportation, space tourism and others, with the purposes of fully expanding human living space and enhancing the efficiency of space utilisation.

For the "future AI" technology business, the Group invests in developing voice recognition-featured, open-structured and video analytic identification and the like products and solutions. During the year, the Group entered into investment agreements with Agent Video Intelligence ("Agent VI", an Israeli video analytics solution provider) and Beyond Verbal Communications Ltd. ("Beyond Verbal", an Israeli health and emotions analytics solution provider), to invest an amount of USD4,300,000 and USD3,000,000 into Agent Video Intelligence and Beyond Verbal Communications Ltd. respectively, in jointly promoting the development and commercialisation of future AI technology.

During the year, revenue from the Future Technology Business was approximately HK$290,132,000, representing an increase of 4.06% over last year. Of the revenue, the Group's fastest commercialised "Cloud" products accounted for HK$290,132,000. In respect of products of the Future Technology Business, the Group incurred selling and marketing expenses of HK$39,975,000 and research and development expenses of HK$110,027,000. Administrative expenses, including staff cost of the in-depth space business, amounted to HK$136,899,000. During the year, the cooperation under the arrangement entered into by the Company and Pengxin International Mining Company Limited in 2014 for the provision of space technology consultancy services in the Democratic Republic of the Congo was completed.

MANAGEMENT DISCUSSION AND ANALYSIS

Progress of the commercialisation and application of "Cloud"

During the year, the Group entered agreements in relation to the sales and operation of "Cloud" in a number of PRC cities. During the year, "Cloud" has been successfully put into operation in Dongguan, Zunyi and other places. As the application platform for smart cities, "Cloud" integrates all smart applications, successfully forming an integrated space-earth networking platform.

Since the first global commercial flight at SongShan Lake Ecological Park (松山湖生態園) in December 2015, the "Cloud" smart city space information platform in Dongguan has been running smoothly and put into service in Dongguan. In October 2016, the Group performed demonstrations of using "Cloud" in "smart environmental protection", "emergency communication", "fire surveillance" and others, which showed that "Cloud" can be used to provide round-the-clock services such as visible and infrared and other surveillances. Real-time environmental monitoring and other data is collected by sensors on ground and gathered in "Cloud", which then sends the data to the control centre via optical fibre transmission. In addition, in regards to the "Cloud" space information platform project in Dongguan, the Group has entered into strategic cooperation agreements with a number of well-known and leading enterprises in smart city sector, to jointly expand the smart city market. Through the synergistic collaboration among the parties, the Group seeks to upgrade smart city infrastructure for an improved industry chain and ecosystem of cities in the future.

In 2016, the Group conducted detailed negotiations with the administration units and departments of Xinpu New District in respect of the "Cloud" in Zunyi base, and developed new applications, namely mudslide monitoring, environmental protection check, urban unauthorised building surveillance, traffic observation, 3D geometric information and cyberspace safety light, which form a basis of big-data for city administrators in city surveillance, ecological monitoring and emergency communication and fire warning. Meanwhile, "Cloud" serves as a platform for governments to provide innovators and entrepreneurs with resources.

Besides, the Group entered into cooperation with a number of new industrial city developers, to use "Cloud" in developing new industrial cities for the interest of governments and the societies. At the early stage of new industrial city development, "Cloud" was used in geometric and geomorphological observation, environmental monitoring, etc, which facilitated the overall planning and management of smart parks.

Set up near space technology research and development institute and "Traveller II" test flight

During the year, the Group formed a strong alliance with Haikou National Hi-tech Zone and established the Haikou Future Technology Institute and KuangChi Near Space Technology Research and Development Headquarters. The purpose of the institute is to enhance its own capability of developing special projects for the aviation and aerospace industry (such as near space flying apparatus) and technology for the strategic emerging industry, and thereby to develop itself as a research institute with internationally top-notch development capacity in aviation and aerospace. It also seeks to establish stable and close partnership with organisations and enterprises that are engaged in fields such as aviation and aerospace, electronic information and new materials in Hainan province, with the aim of becoming an important platform for the collaboration among industry, academia and research institutes in Hainan province. In the meantime, the institute will base on its previous experience in undertaking near space projects, to further advance the technology of "Traveller" near space flying platform, as well as to optimise its business operation model.

During the year, "Traveller II" completed test flight in Xinjiang of China in November 2016 and reached an altitude of 12,000 m. However, due to the abnormal performance of some communication and control systems, for the sake of overall test safety, "Traveller II" made an emergency landing and returned to the earth according to the ground instruction. Compared to "Traveller I", which has launched in New Zealand, "Traveller II" has and carries additional cabins, functions and equipment such as space-earth dialogue, hi-speed communication and propeller, which make the test flight more difficult.

MANAGEMENT DISCUSSION AND ANALYSIS

The main cabin of "Traveller II" is equipped with a specially-designed traction system. The multi-channel optical systems installed inside and outside the cabin enable real-time video surveillance and high-definition photo shooting of space, earth and the main parts of itself when it is on orbit. They also provide both remote and self-control options, and allow for collecting a large number of videos, images and information and transmitting them to the control centre on-ground simultaneously.

Progress of the commercialisation and application of "KuangChi Martin Jetpack" project

During the year, the Group emphasised on upgrading the technology and performance of "KuangChi Martin Jetpack" products. It has done various testings and made product deliveries. In the first half of 2016, the Group finalised the P14 version of "KuangChi Martin Jetpack" and initiated the "weight-cutting program". As a result, the Group developed the business version of Series 1 jetpack for users from special industries. "KuangChi Martin Jetpack" is mainly used for emergency and rescue purposes, including fire, police and ambulance services, anti-terrorism and other special operation, hostage rescue, maritime defense, petroleum and natural gas platforms, etc.

Progress of the commercialisation and application of "Solar Ship"

In the second quarter of 2016, the Group completed the overall planning and design of the Fossa version of Solar Ship under the "Solar Ship" project, and put it into manufacture. In the same period, under the guidance of Royal Canadian Air Force, the Group started testing on the systems of Fossa Solar Ship on an individual basis. It is the plan of the Group to complete the maiden test flight of Fossa Solar Ship by the first quarter of 2017. In the first quarter of 2016, under the "Solar Ship" project, the Group and Royal Canadian Air Force entered into an aircraft leasing agreement in relation to aviation exercises and a letter of intent in relation to the purchases for Chinese market. In the fourth quarter of 2016, the Group set up sales and operations offices in Uganda, South Africa and Zambia for the "Solar Ship" project. The project has been progressing to a final stage of sales and market promotion.

Comprehensive layout for developing the "Future AI" business and technology

During the year, the Company closely embraced its awareness of the future trends, including in-depth space, spiritual machines and ultimate connection, to deploy comprehensive layout for developing the "Future AI" business and technology. Spiritual machines are machines that have been empowered with souls, allowing such equipments to become human partners rather than simply tools. The management believes that such analytics solution technology enables machines to be emotionally intelligent thereby better serve all mankind.

Statistics indicate that the scale of AI market in China has reached RMB23.9 billion in 2016, and is forecasted to grow to RMB38.1 billion by 2018, representing a compound annual growth rate of 26.3%. Future AI technology is key for establishing and developing smart cities in the future. Emotion recognition equipment, in particular of spiritual machines, will play an important role in the development of smart cities in areas of security, traffic control, healthcare and smart community. It is the source of intelligence for smart cities. The demand for application in the establishment and development of smart cities will drive growth of AI technology and industry.

During the year, the Group deployed comprehensive layout for developing the "Future AI" business and technology. It invested in developing voice recognition-featured, open-structured and video analytic identification and the like products and solutions. Its investees include two Israeli-based companies, namely Beyond Verbal and Agent VI.

Beyond Verbal focuses on the decoding of human emotions and well-being through human voice. This world leading technology is a revolutionary breakthrough in the field of analysing health and emotions and the emotions analysing technology has undergone more than 20 years of research and development with a wide range of prospective applications, from improving call centre effectiveness to tracking health conditions overtime. Beyond Verbal has collected more than 2.5 million emotion-tagged voices in more than 40 languages and secured their technology with multiple patents.

MANAGEMENT DISCUSSION AND ANALYSIS

Agent VI focuses on the provision of high quality video analytics solutions and achieving seamless matching with third party systems leveraging on its patented software systems, advanced computer visual and machine-enabled learning algorithm, as well as its experience in software development for major surveillance deployments accumulated over the years. Agent VI's solutions enable users to make the best use of their video surveillance networks for they have automatic video analysis on incidents under surveillance with alerts. They can also speed up video search and statistical data extraction from recorded images in surveillance cameras. Agent VI's solutions give stronger safety protection to facilities, enhance the working efficiency of the operators of security and surveillance systems, generate important business information and provide better management of pedestrian and vehicle traffic flows.

Gain on investment in the shares of Longsheng

During the year, the Group recorded a net gain through investment in the shares of Longsheng, amounted to HK$791,238,000. In March 2015, the Group entered into a subscription agreement with Zhejiang Longsheng Automotive Parts Stock Limited Corporation (浙江龍生汽車部件股份有限公司) ("Longsheng"), pursuant to which, the Group subscribed 42,075,736 new shares of Longsheng with a total consideration of RMB300,000,000 at a subscription price of RMB7.13 per share. In November 2016, Longsheng obtained approval from China Securities Regulatory Commission for the application of non-public issuance of shares. Accordingly, the fair value of the investment was determined based on the share price of Longsheng as at 30 December 2016 of RMB37.46. The difference with the subscription price of RMB7.13 per share was recognised as a gain on investment during 2016. The total net gain was HK$791,238,000.

Such investment constitutes a part of the proceeds from the non-public issue of shares by Longsheng. It will be mainly applied towards the industrialisation of metamaterials smart structures and equipment technology. The management believes that such strategic investment is in line with the strategy of the Group. Metamaterial technology will boost the commercialisation of the Group's future space technology and future AI products, as well as reduce the cost of research and development. Meanwhile, in the future, the Group will partner with Longsheng in research and development, to jointly enhance hi-tech products and technology, with the aim to better serve all mankind.

Innovation platform building

During the year, through innovation platforms including Kuangchi State Key Laboratory of Metamaterial Electromagnetic Modulation Technology (光啟超材料電磁調製技術國家重點實驗室), KuangChi Postdoctoral Research Centre (光啟博士後工作站), National Professional Qualification Board (國家專業技術資格評審委員會) and the Metamaterial Professional Committee of Standardisation Administration of the PRC (國家標準化委員會超材料專委會) where KuangChi is the secretariat, the Group continued its efforts on basic technology expansion, innovation, transformation and application, in order to provide radical support for the technological advantage, market competitiveness and long-term development of the Group's in-depth space products.

Manpower development

On staff development front, as the central government issued the "Opinions on deepening of the systematic and structural reform of manpower development" (《關於深化人才發展體制機制改革的意見》), many talents have been released which facilitate manpower mobility in space technology and the related sectors. The Group grasped this opportunity by formulating a key strategy of attracting and fostering talents and high-calibre employees, to introduce and nurture a large pool of talents. It enabled the Group to strengthen and broaden its staff base, and further enhance its core competitiveness.

In the future, the Group will capitalise on its accumulated basic innovative technology and the driving force of further introducing and fostering of talents, to continue to bring a promising future to the present, and create a higher value for its customers, end-users and investors.

MANAGEMENT DISCUSSION AND ANALYSIS

Developing incubators of the "Global Community of Innovation"

Being a key member of the "Global Community of Innovation" (GCI), the Group strives to promote the integration of innovative technologies and establishment of platforms for industrialisation. It also takes part in the direct investment in innovation projects of GCI incubators. The Future Technology Business is now focusing on the development of space application. The Group will strengthen its efforts on the planning and layout in the areas of future space, spiritual machines, smart equipment and ultimate connection, to facilitate the international headquarters of GCI in extending the coverage of development, testing and sales network worldwide, to incubate more products and businesses of higher quality.

The Paper Business

During the year, the Group disposed the Paper Business for the consideration of HK$12,000,000 and recognised a gain on disposal of approximately HK$2,213,000. The revenue contributed by the Paper Business up to the disposal date was approximately HK$55,649,000 (2015: HK$74,669,000).

The Group is principally engaged in future technology products and services, whereas the Paper Business is engaged in the manufacture and trading of paper packaging products. The Paper Business is not in line with the main business focus of the Group and therefore the board of directors of the Company considers that the disposal provides an opportunity for the Group to realise its investment in the non-core business and focus all the resources to its future technology businesses.

The Property Investment Business

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$360,000 (2015: HK$356,000) was recognised. A gain on change in fair value of investment property of approximately HK$100,000 is recognised in the year (2015: HK$600,000). As a result, a segment profit of approximately HK$404,000 incurred (2015: HK$923,000).

In order to realise its investment in the non-core business and focus all the resources to its future technology businesses, the Group disposed the Property Investment Business for the consideration of HK$9,900,000 in January 2017.

Other results

The Company has granted replacement and new share options to directors and employees of the Group in 2015, the relevant share-based payment expenses for the year was approximately HK$63,126,000 (2015: HK$59,792,000).

Net exchange loss of approximately HK$4,203,000 was recognised during the year (2015: HK$36,695,000) and it was mainly due to the significant depreciation of RMB to HKD in 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.

On 12 July 2016, the Company received notices from Starbliss Holdings Limited (one of the Subscribers) to convert all of their respective Tranche B preferred shares into 125,222,222 ordinary shares of the Company. On 17 August 2016, the Company received notices from Lucky Time Global Limited, Grand Consulting Management S.A. and Cutting Edge Global Limited (Three of the Subscribers) to convert all of their respective Tranche B preferred shares into 62,611,111, 62,611,111 and 125,222,222 ordinary shares of the Company respectively. Following conversion of the above Tranche B preferred shares, the Company has no Tranche B preferred shares outstanding.

MANAGEMENT DISCUSSION AND ANALYSIS

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. During the year ended 31 December 2015, approximately HK$625,117,000 was utilised according to the intended use as specified in the annual report of year 2014. As at 31 December 2015, approximately HK$1,000,471,000 was unutilised.

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 2016	Utilised during the year	Unutilised proceeds as at 31 December 2016
	HK$'000	HK$'000	HK$'000
Acquisition of land site and construction of manufacturing facilities and expansion of production capacity for the Future Technology Business	803,609	(64,305)	739,304
Research and development for products and expenses for the Future Technology Business	153,466	(110,027)	43,439
General working capital	705	(705)	–
Global merger and acquisition of In-depth space services industry and products	42,691	(42,691)	–
	1,000,471	(217,728)	782,743

During the year, approximately HK$217,728,000 was utilised according to the intended use as specified in the annual report of year 2014. During the year, the Group has paid approximately HK$64,305,000 to purchase additional plant and equipment for the Future Technology Business, approximately HK$110,027,000 on research and development costs and approximately HK$705,000 for general working capital. Approximately HK$15,500,000 was used to subscribe additional preferred shares of SkyX Limited, HK$23,250,000 was used to subscribe the preferred shares of Beyond Verbal Communication Ltd. ("Beyond Verbal") and HK$33,325,000 was used to subscribe preferred shares of Agent Video Intelligence ("Agent VI"), respectively.

The unused proceeds up to 31 December 2016 were approximately HK$782,743,000. 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 2016, the Group has further paid for approximately RMB300,000,000 (approximately HK$345,000,000) for the subscription of new ordinary shares of Longsheng. The option exercisable by the Company to subscribe for additional common shares of Solar Ship was expired on 15 January 2017.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the total shareholders' funds of the Group amounted to approximately HK$2,729,711,000 (31 December 2015: HK$2,174,998,000), the total assets of approximately HK$3,504,108,000 (31 December 2015: HK$2,457,909,000) and the total liabilities of approximately HK$774,397,000 (31 December 2015: HK$282,911,000).

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2016, the Group had bank balances and cash of approximately HK$870,558,000 (31 December 2015: HK$1,228,556,000), time deposit of approximately HK$252,005,000 (31 December 2015: HK$125,133,000) and the Group had structured bank deposits of approximately HK$13,397,000 (31 December 2015: nil). As at 31 December 2015, the Group also had pledged bank deposits of HK$143,280,000. The gearing ratio as of 31 December 2016, defined as the percentage of the total interest bearing debt, including bank borrowings of approximately HK$264,147,000 (31 December 2015: HK$142,397,000) and convertible debenture of approximately HK$6,584,000 (31 December 2015: HK$5,569,000). (Obligations under finance leases of approximately HK$233,000 was also included in 2015), to net asset value, was approximately 9.91% (31 December 2015: 6.81%).

The Group's business operations and investments are in the PRC, Hong Kong, New Zealand and Canada. Bank balances and cash as at 31 December 2016 denominated in local currency and foreign currencies mainly included HK$112,159,000, RMB332,996,000, NZD17,324,000, USD66,234,000 and CAD7,881,000 respectively. The outstanding balances of borrowings included HK$160,230,000 and USD13,400,000. Other than described above, most of the assets, liabilities and transactions of the Group are primarily denominated in HK$ 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

Investment in Beyond Verbal

On 8 September 2016, the Company has entered into an investment agreement with Beyond Verbal to invest an aggregate sum of USD3 million in Beyond Verbal.

Beyond Verbal focuses on the decoding of human emotions and well-being through human voice. This world leading technology is a revolutionary breakthrough in the field of analysing health and emotions and the emotions analysing technology has undergone more than 20 years of research and development with a wide range of prospective applications, from improving call centre effectiveness to tracking health conditions overtime. Beyond Verbal has collected more than 2.5 million emotion tagged voices in more than 40 languages and secured their technology with multiple patents.

The Company's investment in Beyond Verbal closely signifies Kuang-Chi's awareness of future trends in areas including in-depth space, spiritual machines and ultimate connection. Spiritual machines are machines that have been empowered with souls, allowing such equipments to become human partners rather than simply tools. Beyond Verbal's emotions analysing technology enables machines to be emotionally intelligent thereby making them provide better services to human. This future technology is important to the spiritual machines field, and it is in line with the Company's future development strategy in spiritual machines.

Investment in Agent VI

On 14 September 2016, the Company entered into an investment agreement with Agent VI, an Israeli video analytics solution provider, to invest an aggregate sum of USD4.3 million.

Established in 2003, Agent VI focuses on the provision of high quality video analytics solutions and achieving seamless matching with third party systems leveraging on its patented software systems, advanced computer visual and machine-enabled learning algorithm, as well as its experience in software development for major surveillance deployments accumulated over the years. Agent VI's solutions enable users to make the best use of their video surveillance networks for they have automatic video analysis on incidents under surveillance with alerts. They can also speed up video search and statistical data extraction from recorded images in surveillance cameras. Agent VI's solutions give stronger safety protection to facilities, enhance the working efficiency of the operators of security and surveillance systems, generate important business information and provide better management of pedestrian and vehicle traffic flows.

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According to a report published by IHS market research firm, Agent VI is the market leader in video analytics solutions, with numerous successful deployments worldwide. Its patented technology provides sophisticated and customised analytics solutions across city safety, infrastructure, transport, retail and other applications.

The investment in Agent VI marks an important step of the furtherance of the Company's Future City strategy for its future technology business development. The Future City strategy aims to enhance service efficiency with advanced technologies so as to satisfy residents' needs, create better living quality and, in particular, solve the environmental and "global connection" issues that people are facing. Its objectives can be categorised into three aspects, namely safety, sustainability and space expansion.

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 USD1,500,000 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 USD3,500,000. 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 Company currently holds 1,514,110 preferred shares of SkyX which are currently convertible into 1,514,110 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 60.2% of the ordinary share capital of SkyX when all the 1,514,110 preferred shares are converted based on the number of ordinary shares in issue as at 31 December 2016. Upon the Company's purchase and conversion of the additional 493,440 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 2016.

Saved as disclosed above, and the section headed "The Paper Business" 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.

EVENTS AFTER THE REPORTING PERIOD

Reference is made to the announcement of the Company dated 16 January 2017 in relation to the Investment Agreement on 16 January 2017, under which a wholly owned subsidiary of the Company has subscribed new ordinary shares of Gilo Industries Group Limited ("Gilo"), representing approximately 19.14% of the enlarged issued capital of Gilo, at a consideration of GBP9,467,456 (equivalent to approximately HK$89,372,785). Upon achieving certain product targets, obtaining international certifications for its products and meeting income provisions stipulated in the Investment Agreement by Gilo, the second tranche of investment will be made in the form of subscription of new ordinary shares of Gilo at a consideration of GBP8,260,355 (equivalent to approximately HK$77,977,751) and acquisition of existing ordinary shares of Gilo at a consideration of GBP1,751,480 (equivalent to approximately HK$16,533,971). Upon the completion of the second tranche of investment, the Group will hold approximately 33.74% of the enlarged issued share capital of Gilo. The third tranche of investment will be made in the form of subscription of new shares of Gilo at a consideration of GBP5,041,420 (equivalent to approximately HK$47,591,005). Upon completion of the Subscription and the Acquisition, the Group will hold approximately 39.06% of the enlarged issued share capital of Gilo.

MANAGEMENT DISCUSSION AND ANALYSIS

Gilo is principally engaged in the research and development and manufacturing for aviation and aerospace technology and solutions with a focus on the research and development and manufacturing for innovative engine technologies. Gilo is also a supplier of MACL.

The financial impact of such acquisition is under assessment by the management of the Company.

Subsequent to the year end, options to acquire additional 116,279 common shares of Solar Ship was expired and not exercised and the management of the Company expects that the investment will be derecognised as subsidiary on the date of option expired. The financial impact is under assessment by the management of the Company.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2016 and 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 2016 HK$'000	31 December 2015 HK$'000
Plant and equipment under finance lease	**–**	4,038
Pledged deposit	**–**	143,280
	–	147,318

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no significant contingent liabilities (31 December 2015: Nil).

CAPITAL COMMITMENTS

	2016 HK$'000	2015 HK$'000
Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of the acquisition of:		
Plant and equipment	**253,107**	13,108

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had approximately 950 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

KuangChi Science Limited (the "Company" together with its subsidiaries as the "Group") is pleased to present the first Environmental, Social and Governance Report (the "Report") to provide an overview of our commitment in achieving environmental, social and governance goals through our sustainability pillars. This Report is prepared by the Group with the professional assistance by APAC Compliance Consultancy and Internal Control Services Limited.

PREPARATION BASIS AND SCOPE

This Report is prepared in accordance with Appendix 27 to the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the "HKEX") (the "Listing Rules") – "Environmental, Social and Governance Reporting Guide".

This Report summarizes the performance of the Group in respect of corporate social responsibility in 2016, covering "future technology business" in the People's Republic of China ("PRC"), Canada and New Zealand, which is considered as material to the Group. In view of the first time of publish of the Report, only general disclosure of required aspects is disclosed. The Group will continue to optimize and improve the disclosure requirements. This Report shall be published both in Chinese and English. Should there be any discrepancy between the Chinese and the English versions, the English version shall prevail.

REPORTING PERIOD

This Report demonstrates our sustainability initiatives during the reporting period from 1 January 2016 to 31 December 2016.

CONTACT INFORMATION

The Group welcomes your feedback on this Report for our sustainability initiatives. Please contact us calling 2292 3900.

INTRODUCTION

The Group is a global high-tech innovation company focusing on expanding human's living space. Its nickname "Alien Tech" implies that the Group will bring a better life to human beings with future technologies.

The Group's sustainability management approach is based on the compliance with current legal requirements, the principle of sustainability and stakeholders engagement. Therefore, we focus on these fields of activity: Environment, Employment and Labor Practices, Operating Practice and Community Involvement. The Group has established a system to oversee compliance issues that related to environmental, health and safety and quality management. The Group has formulated policies to promote sustainability and manage risks related to these four areas. Details of the management approach in different areas have been explained in respective section of this Report. The Group has recognized the importance of social responsibility. Our commitment includes:

1. Saving lives by providing relief to disaster-stricken and impoverished areas

2. Improving society by making cities smarter

3. Innovating lifestyles for a better tomorrow

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDERS ENGAGEMENT

Stakeholders engagement is essential to the formulation of strategies for sustainable development. It allows the Group to understand risks and opportunities. The Group has identified key stakeholders that are important to our business and established various channels for communication.

Stakeholder	Issues of concern	Engagement channel
Government	– Compliance – Proper tax payment – Promote regional economic development and employment	– On-site inspections and checks, research and discussion through work conferences, work reports preparation and submission for approval – Annual reports and website
Shareholders and Investors	– Return on the investment – Risk mitigation – Information transparency – Protection of interests and fair treatment of shareholders	– Annual general meeting and other shareholder meetings – Annual report, announcements and newsletter – Meeting with investors and analysts
Employees	– Safeguard the rights and interests of employees – Working environment – Career development opportunities – Health and safety	– Conference – Training, seminars, briefing sessions – Cultural and sport activities – Newsletters – Intranet and emails
Customers	– Safe and high-quality products – Stable relationship – Information transparency – Integrity and business ethics	– Website, brochures, annual reports – Email and Customer service hotline – Feedback forms – Regular meeting
Suppliers/Partners	– Long-term partnership – Honest cooperation – Fair, open – Information resources sharing – Risk mitigation	– Business meetings, supplier conferences, phone calls, interviews – Regular meeting – Review and assessment – Tendering process
Peer/Industry associations	– Experience sharing – Corporations – Fair competition	– Industry conference – Site visit
Public and communities	– Community involvement – Social responsibilities	– Volunteering – Charity and social investment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL ASPECTS

There has been a rising concern on environmental issues nowadays. The Group's commitment to environmental protection encompasses all our business activities, from minimizing emissions to conserving energy and resources and much more. The Group's "Environment and Wastes Policy "demonstrates our determination in developing, implementing and constantly improving its procedures and processes to reduce the negative impact of the company's operational activities on the environment.

EMISSIONS

The Group has developed procedures to monitor the emission of air pollutants, wastes, wastewater and noise. The Group is strictly in compliance with relevant laws and regulations, including but not limited to the Environmental Protection Law of PRC, Resource Management Act 1991 of New Zealand and Hazardous Substance and New Organisms Act 1996 of New Zealand. In 2016, no concluded cases regarding emissions brought against the Group or its employees were noted.

Air Pollutant and Greenhouse Gas Emission

Air pollutant emission control is vital to both environmental protection and health of employees. Emission from the Group's operation complies with the Emission Limits of Air Pollutants (DB44/27–2001) in the PRC. For examples, exhaust gas treatment facilities require regular maintenance to secure that they meet the emission standard. Containers for chemicals storage are sealed properly to prevent leakage.

Climate change is gradually concerned by the public as it does affect our daily life. Greenhouse gas is considered as one of the major contributor to the climate change. The Group has adopted energy saving policy (as mentioned in the section "Use of Resource") in order to reduce the carbon footprint.

Hazardous and Non-Hazardous Wastes

The Group's "Wastes Management Policy" provides guideline on handling wastes. According to the characteristics of wastes, they are classified as general waste, industrial waste and hazardous waste. General wastes and industrial wastes are collected, stored, labelled and weighted before deliver to qualified recycling companies. Hazardous waste treatment follows similar procedures as other wastes but it is under a stringent control. It is required to be labelled carefully according to the internal guidance. If there is leakage of wastes, it must follow the procedure of the corresponding Material Safety Data Sheet (MSDS).

Wastewater

Wastewater generated is required to comply with the regulation of Discharge Limits of Water Pollutants (DB44/26–2001) in the PRC. Wastewater is strictly forbidden to mix with rainwater. To reduce wastewater generation, the volume of wastewater production is one of our key concerns when designing new products and technology. All the chemical wastes are stored in specific premises. It is not allowed to discharge wastewater into unauthorized locations, such as washroom and greenery area, etc.

Noise

Production plants in PRC are required to comply with the regulation of Emission Standard for Industrial Enterprises Noise at Boundary (GB 12348–2008). For premises that equipped with generators and compressors, noise reduction devices are installed to reduce the noise generated from operation of machineries.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

USE OF RESOURCES

The resources consumed by the Group are mainly water, electricity, fuel and paper etc. In order to save resource and mitigate the effect to the environment, the Group's "Energy Resources Control Management Regulation" is established to set out the framework and guideline for employee to implement resource-saving practices. Regular audits and review for resource usage allow us to identify any potential risk related to resource consumption.

Generally, trainings or activities are offered to employees to raise their awareness on energy saving. Energy efficiency is one of the key consideration for procurement department when purchasing machineries. Regular maintenance is carried out for pipes to prevent leakage so as to save water resource. The Group also established and implemented policy of "Office Environment Management Regulation" to provide guidelines for employee to save energy in office. For instance, lights should be turned off when employee leaves. The operation mode of air conditioning is adjusted according to the temperature. Paper should be printed on both sides to reduce paper waste.

THE ENVIRONMENT AND NATURAL RESOURCES

The Group's "Environmental Policy" has outlined environmental plan, which allows us to identify risks that related to environment. By monitoring these risks, we can develop methods and emergency procedures if any impact to the environment is noticed.

SOCIAL ASPECTS

EMPLOYMENT AND LABOUR PRACTICES

The Group prides itself on a creative, dedicated and enthusiastic workforce that strives to achieve our common goal. By taking ownership of responsibilities, trusting and supporting each other, our employees are able to keep their promises and bring the Group's vision to life with a sense of pride in what they do and the Group's achievements. Our labour force is international and this diverse culture helps us to be a global company. Although such diversity does create some challenges, it provides unique opportunities as each culture brings with it a different way of thinking. For a disruptive technology company this ensures we are constantly testing our thinking from different angles.

EMPLOYMENT

The Group expects that all employees and contractors treat one another with respect and dignity. In the Group's policy, it has covered issues relating to compensation and dismissal, recruitment and promotion, working hours, rest period, equal opportunity, diversity anti-discrimination and other benefits and welfare. The Group strictly abides by relevant laws and regulations, such as the Labour Law of PRC, the Labour Contract Law of the PRC and the Employment relations Act 2000 of New Zealand. In 2016, the Group was not subject to any punishment by the government and was not involved in any lawsuit relating to employment.

Equal Opportunity

The Group specifically prohibits discrimination on the basis of age, colour, disability, ethnicity, marital or family status, national origin, race, religion, sex, sexual orientation, or any other characteristic protected by law. These thoughts extended to all employment decisions, including but not limited to recruiting, training, promotion etc.

Harassment-Free Workplace

All employees are committed to maintaining a professional and harassment-free working environment – places where employees act with respect for one another and for those with whom we do business. Behaviors such as unwelcome conduct and sexual harassment are strictly prohibited.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HEALTH AND SAFETY

The Group is committed to providing a healthy and safe workplace for all its employees as stipulated in the Group's "Code of Conduct" and "Safety Policy". The Group is in strict compliance with related laws and regulations, such as Law of the PRC on the Prevention and Control of Occupational Diseases, Health and Safety at Work Act 2015 of New Zealand and Occupational Health and Safety Act of Canada. The Group also seeks to exceed the minimum legal standards. It is our intent to avoid all injuries and to be recognised as an industry leader in safety. We support a "no blame" culture that encourages individuals to report failures in systems and to share these with the entire company in order to raise awareness and facilitate learning. Key occupation health and safety measures are adopted as follow:

1. Employee must receive safety training before performing duties

2. Safety equipment is checked regularly to secure it is in good condition

3. Personnel who uses organic solvent must follow the regulations adopted by the Group

The Group concerns about both mental and physical well-being of employees. The Group's "Workplace Stress and Fatigue Management Policy" aims to provide a system for us to identify and manage any workplace stress and fatigue.

In 2016, the Group was not subject to any punishment by the government and was not involved in any lawsuit related to health and safety.

DEVELOPMENT AND TRAINING

The Group provides diversified on-the-job trainings based on the needs of respective positions and talents and interests of employees. According to the "Employee Training Policy", the Group provides both internal and external trainings for employees, including orientation training for new employee, specialized trainings for different departments, management trainings etc. Moreover, the Group's "Performance Management Policy and Guidelines" is established to assess the performance of employee so as to identify and implement development programs for employees.

LABOUR STANDARDS

The Group respects the right of employee and maintains a high labour standard. The Group is strictly in compliance with the Labour Contract Law of PRC and Employment Relations Act 2000 of New Zealand. The Group does not tolerate any form of forced child labour and forced labour. In the Group's recruitment guideline, candidate who aged under 18 is not allowed to work in the company. In 2016, the Group was not subject to any punishment by the government and was not involved in any lawsuit relating to child and forced labour.

OPERATING PRACTICES

SUPPLY CHAIN MANAGEMENT

A long-term corporation between the Group and its suppliers is necessary to the operation of the business. The Group's "Procurement Management Regulation" provides guideline on supply chain management. The choice of suppliers based on the performance on different areas, including but not limited to compliance, environmental, health and safety management and quality management as stipulated in our internal "Supplier Evaluation and Approval Standard". Continuous supplier assessments and on-site audits are carried out to evaluate the performance of existing suppliers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PRODUCT RESPONSIBILITY

The Group is a world leader in future technology, as well as the owner of the relevant core intellectual properties. The Group has a world-class research and development team that integrates various advanced technologies in electronic information, mathematics and statistics, and other disciplines and has over 4,100 patent applications.

Product responsibility is a key consideration across all aspects of the development of the Group's products including design, manufacturing, training and operations. The Group complies with laws and regulations related to product responsibility in the regions where it operates, for instance, Product Quality Law of the PRC, Trademark Law of the PRC, Fair Trading Act 1986 of New Zealand, Consumer Guarantee Act 1993 of New Zealand. In 2016, the Group was not subject to any punishment by the government and was not involved in any lawsuit relating to product responsibility.

Safety and Quality Management

Safety is a vital aspect of any products, especially for aircrafts, that have been deeply implanted in the operation of the Group. To ensure the safety and quality of our products, the Group has established a comprehensive quality management system to monitor the entire production process. Incoming Quality Control (IQC) is implemented to evaluate the quality of material from suppliers. The standard procedures for packaging, transportation and storage of products are stipulated in the internal regulations. Finished products are inspected to identify any deflects. If non-conforming product is noticed, it will be decided whether to rework, accept or be considered as scrap.

Complaint Handling

Once a compliant is received by telephone, email or letter, it must be reported to the management. Investigation is carried out to identify the reason of the compliant. Responsible department is required to formulate long term strategy and the result will be reviewed by quality assurance department.

Intellectual Property Protection

Protection of intellectual property has been taken very seriously by the Group. Significant technology and intellectual property developed through research and development of the Group has been protected under registered patents. The Group's policy of "Intellectual Property Management System" describes clearly the practices on protection of intellectual property rights. Employee is required to sign an agreement, which states clearly the ownership of the intellectual property. Before disclosure of patent application, employee has the responsibility to keep all related information in secret.

Customer Data Protection and Privacy

Data is our valuable asset. The Group has developed a policy of "Information Management System" to provide guidance to staff on control and usage of company data and to restrict access or use where necessary to protect the interests of the Group. Data is classified into different levels according to the confidentiality as public, internal, and restricted/confidential.

ANTI-CORRUPTION

The Group maintains a high standard of business integrity throughout its operations and tolerates no corruption or bribery in any form according to the Group's "Code of Conduct". The Group strictly complies with relevant laws and regulations relating to anti-corruption, bribery, extortion, fraudulent behavior and money-laundering, including but not limited to the Criminal Law of PRC, Crimes Act 1961 of New Zealand and Serious Fraud Office Act 1990 of New Zealand.

The Group is committed to adhering to the highest ethical standards. All employees are distributed with a code of conduct that they are required to adhere. Such code explicitly prohibits employees from soliciting, accepting or offering bribes or any form of advantage. The Code of Conduct also outlines the Group's expectations on staff with regard to conflicts of interest.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To minimize the possibility of corruption, the Group's "Gift Policy" defines the meaning of gift and clarifies the rules in relation to giving and receiving gifts. The Group's "Whistle Blower Policy" encourages Board members, staff and others to report suspected or actual occurrences of illegal, unethical or inappropriate events (behaviors or practices) without retribution.

In 2016, the Group was not subject to any punishment by the government and was not involved in any lawsuit related bribery, extortion, fraud and money laundering.

COMMUNITY

COMMUNITY INVESTMENT

The Group has established a "Community Involvement Policy" to promote community involvement and social contribution. It provides an opportunity for employee to volunteer and serve the community. The Group has contributed in different areas so as to build a better society.

Community involvement

The Martin Aircraft Company Limited, one of our subsidiaries, has enjoyed strong support from the community over the years and firmly believes in giving back through sharing its time, knowledge and resources. It supports technical innovation and learning, and whenever it can host students and enthusiasts at its facilities and offers talks and demonstrations. Many of the employees also take time to give talks to universities, schools and clubs to encourage education and interest in science, technology and engineering.

As a pre-revenue company, Martin Aircraft Company Limited is currently limited to choose sponsorship or financial support it can offer but it encourages employees to participate in charitable events and it support charities directly through offering a Jetpack Experience for auctioning.

Effort in building environmentally friendly transportation

In May 2016, Solar Ship Inc., one of our subsidiaries, was awarded the "Game Changer Project of the Year" by Canadian Solar Industries Association as the company demonstrates the off-grid solar-powered hangar in Brantford. It encourages the company to continue the development of environmental friendly transportation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

THE STOCK EXCHANGE OF HONG KONG LIMITED'S ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

Indicator	Description	Section	Page
A. Environmental			
A1 – Emission			
A1	General Disclosure	"Emission" Not aware of any material non-compliance	14
A.1.1	The types of emissions and respective emissions data	"Emission"	14
A.1.2	Greenhouse gas emissions in total and, where appropriate, intensity	–	–
A1.3	Total hazardous waste produced and, where appropriate, intensity	–	–
A1.4	Total non-hazardous waste produced and, where appropriate, intensity	–	–
A1.5	Description of measures to mitigate emissions and results achieved	"Emission"	14
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	"Emission"	14
A2 – Use of Resources			
A2	General Disclosure	"Use of Resources"	15
A2.1	Direct and indirect energy consumption by type in total	–	–
A2.2	Water consumption in total and intensity	–	–
A2.3	Description of energy use efficiency initiatives and results achieved	"Use of Resources"	15
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	"Use of Resources"	15
A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced	–	–
A3 – The Environment and Natural Resources			
A3	General Disclosure	"The Environment and Natural Resources"	15
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	"The Environment and Natural Resources"	15

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator	Description	Section	Page
B. Social			
B1 – Employment and Labour Practices			
B1	General Disclosure	"Employment" Not aware of any material non-compliance	15
B1.1	Total workforce by gender, employment type, age group and geographical region	–	–
B1.2	Employee turnover rate by gender, age group and geographical region.	–	–
B2 – Health and safety			
B2	General Disclosure	"Health and Safety" Not aware of any material non-compliance	
B2.1	Number and rate of work-related fatalities	–	–
B2.2	Lost days due to work injury	–	–
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	"Health and Safety"	16
B3 – Development and Training			
B3	General Disclosure	"Development and Training"	16
B3.1	The percentage of employee trained and employee category	–	–
B3.2	The average training hours completed per employee by gender and employee category	–	–
B4 – Labor Standard			
B4	General Disclosure	"Labour Standard" Not aware of any material non-compliance	16
B4.1	Description of measures to review employment practices to avoid child and forced labor	"Labour Standard"	16
B4.2	Description of steps taken to eliminate such practices when discovered	"Labour Standard"	16
B5 – Supply Chain Management			
B5	General Disclosure	"Supply Chain Management"	16
B5.1	Number of suppliers by region	–	–
B5.2	Description of practices relating to engaging supplies, number of supplies where the practices are being implemented, how they are implemented and monitored	"Supply Chain Management"	16

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator	Description	Section	Page
B6 – Product Responsibility			
B6	General Disclosure	"Product responsibility" Not aware of any material non-compliance	17
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	–	–
B6.2	Number of products and service related complaints received and how they are dealt with	"Product responsibility – Complaint Handling"	17
B6.3	Description and practices relating to observing and protecting intellectual property rights	"Product responsibility – Intellectual Property Protection"	17
B6.4	Description of quality assurance process and recall procedures	"Product responsibility – Safety and Quality Management"	17
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	"Product responsibility – Customer Data Protection and Privacy"	17
B7 – Anti-corruption			
B7	General Disclosure	"Anti-corruption" Not aware of any material non-compliance	17 – 18
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the case	"Anti-corruption"	17 – 18
B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored	"Anti-corruption"	17 – 18
B8 – Community Investment			
B8	General Disclosure	"Community Involvement"	18
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)	"Community Involvement"	18
B8.2	Resources contributed (e.g. money or time) to the focus area	"Community Involvement"	18

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Liu Ruopeng, aged 33, is currently the chairman and executive Director of the Company and also the chairman of nomination 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 is a non-executive director of Martin Aircraft Company Limited, a company listed on the Australian Securities Exchange (security code: MJP). 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 37, is currently the co-chief executive officer and executive Director of the Company and also a member of remuneration 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 was a non-executive director of Martin Aircraft Company Limited, a company listed on the Australian Securities Exchange (security code: MJP) until 16 August 2016. 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 37, is currently the co-chief executive officer and 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 is a non-executive director of Martin Aircraft Company Limited, a company listed on the Australian Securities Exchange (security code: MJP). 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.

Mr. Ko Chun Shun, Johnson, aged 65, 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 a Non-executive Director of Yunfeng Financial Group Limited 雲鋒金融集團有限公司 (formerly known as REORIENT Group Limited) (stock code: 376); the deputy chairman and an executive director of Frontier Services Group Limited (stock code: 500); and the Independent Non-executive Director of Meitu (stock code: 1357), and Mr. Ko had also been the chairman and an executive director of Varitronix International Limited (stock code: 710) until April 2016, and the vice chairman and an executive director of Concord New Energy Group Limited (stock code: 182) until June 2015, the shares of which are listed on the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Dorian Barak, aged 43, is currently an executive Director of the Company. Mr. Barak joined the Group in February 2017. Mr. Barak is a veteran private equity investor and fund manager specializing in emerging markets. He serves on the boards of companies active in the technology, aviation and natural resources sectors in Israel, China and Africa. He was an independent non-executive director of Yunfeng Financial Group Limited (formerly known as Reorient Group Limited) (stock code: 376) from 16 January 2014 to 9 November 2015. Mr. Barak is CEO of Indigo Global, which advises leading companies and funds on strategy and investment transactions. Over the past two decades, Mr. Barak has filled key investment and strategy positions in the US, Israel and Europe. He was the Head of Global Strategy and M&A at Hapoalim, Israel's leading financial group; an M&A Attorney with the Skadden Arps law firm in New York; and a Consultant with the Boston Consulting Group (BCG) in Chicago. He was awarded a Juris Doctor by Yale University, a master degree from Oxford University, and a BA from UCLA.

NON-EXECUTIVE DIRECTOR

Mr. Song Dawei, aged 49, is currently a non-executive Director of the Company and is a professional with extensive experience in the fields of automotive, electronic technology and communications. He has accumulated extensive work experience in the fields of electronic engineering and automation control while he worked in the Second Automotive Works Co., of PRC (中國第二汽車製造廠), Dongfeng Motor Co., Ltd. (東風汽車有限公司) and Wuhan Shenlong Automobile Co., Ltd. (武漢神龍汽車有限公司). Since then, he has served as General Manager of Hubei Bada Technology Company (湖北八達科技公司), Chairman of Jiangxi Donghuai Automobile Sales Co., Ltd. (江西東維汽車銷售有限公司) and Chairman of Hubei Changjiang Era Communications Co., Ltd. (湖北長江時代通信有限公司). Mr. Song is currently a director of HyalRoute Communication Group Limited (海容通信集團有限公司).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Liu Jun, aged 52, 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 43, 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 Institution of Engineering and Technology Inc. ("IET") and a fellow of The Institute of Electrical and Electronics Engineers Inc. ("IEEE"), 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Cao Xinyi, aged 34, is currently an independent non-executive Director of the Company and also the chairman of audit committee. Ms. Cao joined the Group in October 2016. Ms. Cao is the chairman, executive Director and company secretary of E-Commodities Holdings Limited ("E-Commodities"), a company incorporated in the British Virgin Islands with limited liability and the shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 1733). Ms. Cao has long term experience in the business and operations of E-Commodities, and has been closely involved with the financial affairs of E-Commodities and has extensive experience in investors' relationship. From 2005 to 2009, Ms. Cao has served at PricewaterhouseCoopers. She graduated from the City University of Hong Kong with a bachelor's degree in Business Administration in 2005. Ms. Cao is a member of the Hong Kong Institute of Certified Public Accountants.

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 2016 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 34, 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

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries include the research and development and manufacture of innovative products for future technology business, and the provision of other innovative technology service solutions (the "Future Technology Business"). Details of the principal activities of the principal subsidiaries of the Group are set out in note 1 to the consolidated financial statements of this annual report. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2016.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

During the year, the Group's five largest suppliers and the largest supplier accounted for approximately 26.5% and 7.9% respectively of the Group's total purchases.

During the year, the Group's five largest customers accounted for approximately 90.1% of the Group's total sales. The largest customer accounted for approximately 41% of the Group's total sales.

None of the Directors, their close 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 during the year.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated financial statements on pages 60 to 66.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2016.

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 3 to 11 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 key performance indicators are discussed below.

The Group's gross profit margin, based on gross profit for the year to revenue, was 68% (2015: 79%) for the year ended 31 December 2016. The gross profit margin was drop slightly between 2016 and 2015 due to part of the revenue in 2015 was generated from consultancy services which has higher gross profit margin when compared with sales of "Cloud". 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.

DIRECTORS' REPORT

EBITDA, share based payment and impairment loss recognised in respect of goodwill represented earnings from continuing operations 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$866,109,000 (2015: HK$128,547,000) reflecting the fair value gain from the investment of Longsheng.

The level of debt (including obligations under finance lease and bank borrowings) to equity of the Group was at a healthy level of 0.1 times as at 31 December 2016 (2015: 0.07). 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. For details, please refer to the section headed "Environmental, Social and Governance Report".

Health and safety

The Group provides 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. For details, please refer to the section headed "Environmental, Social and Governance 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 eco-friendly 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. For details, please refer to the section headed "Environmental, Social and Governance Report".

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. For details, please refer to the section headed "Environmental, Social and Governance Report".

DIRECTORS' REPORT

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. For the year ended 31 December 2016 and up to the date of this report, 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. For the year ended 31 December 2016, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

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.

(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.

DIRECTORS' REPORT

Customers

The Group maintains a good relationship with its customers. It is the Group's mission to provide excellent customer service in future technology 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 64 and other details of the reserves of the Company are set out in note 45 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2016, 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 16, 20 and 24 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 33 to the consolidated financial statements and "Capital Structure" in the section headed "Management Discussion and Analysis" on page 7 of this annual 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 158.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws, which would oblige the Company to offer new shares on a *pro rata* basis to existing shareholders, although there are no restrictions against such rights under the laws in Bermuda.

EQUITY-LINKED AGREEMENT

Other than the Share Option Scheme (as defined below) and the RSA Scheme (as defined below) disclosed below, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

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.

DIRECTORS' REPORT

SHARES ISSUED

On 12 July 2016, the Company received a notice from Starbliss Holdings Limited to convert its Tranche B Preferred Shares into 125,222,222 Ordinary Shares of the Company. On 18 July 2016, the Company issued 125,222,222 ordinary shares in respect of the conversion.

On 15 August 2016, the Company received a notice from Lucky Time Global Limited, Grand Consulting Management S.A. and Cutting Edge Global Limited to convert their respective Tranche B Preferred shares into 62,611,111, 62,611,111 and 125,222,222 Ordinary Shares of the Company. On 18 August 2016, the Company issued 250,444,444 ordinary shares in respect of the conversion.

On 3 January 2017, the Company received a notice to exercise 20,546,377 Ordinary Shares of the Company under share option scheme adopted by the Company on 31 July 2012. On 11 January 2017, the Company issued 20,546,377 ordinary shares in respect of the exercise.

For more details, please refer to "Capital Structure" in the section headed "Management Discussion and Analysis" on page 7 of this annual report.

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 *(Co-Chief Executive Officer)*
Dr. Luan Lin *(Co-Chief Executive Officer & Chief Technology Officer)*
Mr. Ko Chun Shun, Johnson
Mr. Dorian Barak[*]

Non-executive Director

Mr. Song Dawei[*]

Independent Non-executive Directors

Ms. Cao Xinyi[#]
Dr. Liu Jun
Dr. Wong Kai Kit
Ms. Zong Nan[Δ]

* Appointed on 1 February 2017
\# Appointed on 20 October 2016
Δ Retired on 27 June 2016

DIRECTORS' REPORT

In accordance with Bye-laws 86.(2) of the Company, Mr. Dorian Barak, Mr. Song, Dawei and Ms. Cao, Xinyi will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Bye-laws 87 of the Company, Dr. Zhang Yangyang, Dr. Luan Lin and Mr. Ko Chun Shun, Johnson should be retired by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 22 to 24.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule") and as at the date of this report still considers that all of the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the retiring 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 Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS, TRANSACTIONS AND ARRANGEMENTS OF SIGNIFICANCE

Other than as disclosed under the section of "Continuing Connected Transactions, Connected Transactions and Other Related Party Transactions", no contracts, transactions and arrangements 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 Director had a material interest, either directly or indirectly, subsisted at any time during or at the end of the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, every Director, other officer and auditor shall be entitled to be indemnified out of assets and profits of the Company against all losses or liabilities incurred or sustained by him/her as a Director, auditor or other officer of the Company about the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Group.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by Remuneration Committee on the basis of their merit, qualifications and competence.

The emolument of the Directors are decided by Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme and restricted share award scheme as an incentive to directors and eligible employees, details of which are set out in note 35 to the consolidated financial statements.

DIRECTORS' REPORT

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group during the year ended 31 December 2016 are set out in note 13 to the consolidated financial statements respectively. The remunerations of the Directors are determined based on the market price and contribution made by such Directors to the Company. There has been no arrangement under which any Director has waived or agreed to waive any emoluments.

CONTINUING CONNECTED TRANSACTIONS, CONNECTED TRANSACTIONS AND OTHER RELATED PARTY TRANSACTIONS

Save as disclosed below, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this annual report in compliance with the requirements of Chapter 14A of the Listing Rules during the year ended 31 December 2016. The Directors confirm that they have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Continuing connected transactions

During the year, the Group did not have any continuing connected transactions.

Connected transactions

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

Termination of 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 (Shenzhen Kuang-Chi Hezhong Technology Limited*, "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 under the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

On 1 February 2017, the Company announced that the Subscription Agreements made with Sky Asia was terminated due to the conditions precedent set out in the Sky Asia Subscription Agreements has not been satisfied. The subscribers claimed that due to the stricter capital outflow control measures implemented in China in the last year, the approval has not yet been granted as at 30 January 2017.

Disposal of Sky Will Printing & Packaging (Holdings) Limited

On 26 October 2016, the Company agreed to sell Sky Will Printing & Packaging (Holdings) Limited at consideration HK$12,000,000 to Glory Wing Investments Limited, which was wholly-owned by Mr. Ng Man Chan and Ms. Li Mi Lai (the directors of Sky Will Printing & Packaging (Holdings) Limited). On the same date, the Company and New Able Investments Limited (a wholly owned subsidiary of the Company) also entered into the assignment agreements to assign the loans due from Sky Will Printing & Packaging (Holdings) Limited and its subsidiary in aggregate of HK$19,000,000 to Glory Wing Investments Limited for a consideration of HK$19,000,000.

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 42,075,736 new shares of Longsheng at the consideration of RMB300 million (equivalent to approximately HK$375 million).

* *For identification purpose only*

DIRECTORS' REPORT

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.

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 Rules to 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 the independent shareholders pursuant to the special general meeting of the Company held on 10 August 2015. On 11 November 2016, Longsheng obtained the approval from the China Securities Regulatory Commission for the subscription and all the conditions of the subscription agreement have been satisfied.

Other related party transactions

Save as disclosed above, the other related party transactions as disclosed in note 43 to the consolidated financial statements are de minimis transactions that are exempted from announcement and/or independent 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 2016.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2016, the following Directors or chief executives 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").

	Number of Shares held		Number of underlying Shares held				Approximately percentage of total
Name of Director/Chief executive	Personal interest	Corporate interests	Personal interest	Family interests	Corporate interests	Total	issued Shares
Dr. Liu Ruopeng ("Dr. Liu")		3,476,000,000 (L) *(note 2)*	–	3,000,000 (L) *(note 3)*	–	3,479,000,000 (L)	57.13%
		1,544,666,667 (S) *(note 4)*	–	–	–	1,544,666,667 (S)	25.37%
Mr. Ko Chun Shun, Johnson ("Mr. Ko")		256,000,000 (L) *(note 5)*	–	–	–	256,000,000 (L)	4.20%
Dr. Zhang Yangyang ("Dr. Zhang")		–	23,000,000 (L) *(note 6)*	–	–	23,000,000 (L)	0.38%
Dr. Luan Lin ("Dr. Luan")		–	17,800,000 (L) *(note 7)*	–	–	17,800,000 (L)	0.29%
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 3,078,000,000 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 Shenzhen Kuang-Chi Innovative Technology Limited and as to 49% by Shenzhen Kuang-Chi Hezhong Technology Limited. Shenzhen 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 1,544,666,667 Shares owned by New Horizon.

5. This represents the interests in 256,000,000 Shares held by Starbliss Holdings Limited ("Starbliss"). Starbliss is ultimately wholly owned by Mr. Ko.

DIRECTORS' REPORT

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

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

8. As on 31 December 2016, the issued shares of the Company is 6,089,401,125.

Save as disclosed above, as at 31 December 2016, 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 2016, 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 *(note 8)*
Ms. Huang	Beneficial owner and interest of spouse	3,473,000,000 (L) *(note 2)*	3,000,000 *(note 3)*	3,476,000,000 (L)	57.08%
		1,544,666,667 (S) *(note 4)*	–	1,544,666,667 (S)	25.37%
New Horizon	Beneficial owner	3,078,000,000 (L) *(note 2)*	–	3,078,000,000 (L)	50.55%
		1,544,666,667 (S)	–	1,544,666,667 (S)	25.37%
Wireless Connection Innovative Technology Limited	Interest of controlled corporation	3,078,000,000 (L)	–	3,078,000,000 (L)	50.55%
		1,544,666,667 (S)	–	1,544,666,667 (S)	25.37%
深圳大鵬光啟科技有限公司 (*Shenzhen Dapeng Kuang-Chi Technology Limited)	Interest of controlled corporation	3,078,000,000 (L)	–	3,078,000,000 (L)	50.55%
		1,544,666,667 (S)	–	1,544,666,667 (S)	25.37%
深圳大鵬光啟聯眾科技合伙企業（有限合伙） (*Shenzhen Dapeng Kuang-Chi Lianzhong Technology Limited Liability Partnership)	Interest of controlled corporation	3,078,000,000 (L)	–	3,078,000,000 (L)	50.55%
		1,544,666,667 (S)	–	1,544,666,667 (S)	25.37%
深圳光啟合眾科技有限公司 (*Shenzhen Kuang-Chi Hezhong Technology Limited)	Interest of controlled corporation	3,078,000,000 (L)	–	3,078,000,000 (L)	50.55%
		1,544,666,667 (S)	–	1,544,666,667 (S)	25.37%

* *For identification purpose only*

DIRECTORS' REPORT

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximately Percentage of total issued Shares *(note 8)*
深圳光啟創新技術有限公司 (*Shenzhen Kuang-Chi Innovative Technology Limited)	Interest of controlled corporation	3,078,000,000 (L) 1,544,666,667 (S)	– –	3,078,000,000 (L) 1,544,666,667 (S)	50.55% 25.37%
Ping An Bank *(note 5)*	Person having a security interest in Shares *(note 5)*	1,544,666,667 (L)	–	1,544,666,667 (L)	25.37%
Ping An Insurance (Group) Company of China Ltd.	Interest of controlled corporation	1,544,666,667 (L)	–	1,544,666,667 (L)	25.37%
World Treasure Global Limited	Beneficial owner	842,981,013 (L) *(note 6)*	–	842,981,013 (L)	13.84%
Central Faith International Ltd.	Interest of controlled corporation	842,981,013 (L)	–	842,981,013 (L)	13.84%
Sky Asia *(note 7)*	Beneficial owner	395,000,000 (L)	–	395,000,000 (L)	6.49%

* *For identification purpose only*

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 of the Company held by Ms. Huang.

4. This represents the share charge given by New Horizon in favour of Ping An Bank over 1,544,666,667 Shares owned by New Horizon.

5. 49.56% 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. As at 31 December 2016, the issued share capital of the Company is 6,089,401,125.

Save as disclosed above, as at 31 December 2016, the Company was not aware of any other person (other than the director or chief executives 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 "Share Option 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 share options 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 Share Option Scheme up to the year end 31 December 2016.

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 share options during the period.

DIRECTORS' REPORT

Category of participant	Date of Grant	Exercise price HK$	Exercisable period [(2)]	Outstanding as at 1 January 2016	Granted during the year	Forfeited during year	Outstanding as at 31 December 2016
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				40,800,000	–	–	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)]	39,637,000	–	–	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				96,737,000	–	–	96,737,000
Total				137,537,000	–	–	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.

Restricted Share Award Scheme

Under the restricted share award scheme ("RSA Scheme") approved and adopted by the shareholders in the 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").

DIRECTORS' REPORT

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.

During the year ended 31 December 2016, no restricted shares were granted by the Company. During the year ended 31 December 2016, no equity shares were purchased nor issued by the Company for the purposes of the RSA Scheme.

SHARE OPTION SCHEMES IN MARTIN AIRCRAFT COMPANY LIMITED ("MACL")

On 23 February 2015, the Group has completed the acquisition of MACL. As at 23 February 2015, MACL has granted in aggregate 9,206,670 outstanding share options under the company option scheme of MACL and the new company option scheme of MACL as approved by the board of directors of MACL in 2008 and 2014 respectively (the "MACL Option Schemes").

The purpose of the MACL Option Schemes is to enable key contributors to the potential success of MACL to share in that success by issuing them an option to purchase ordinary shares in MACL at an agreed price. Detailed terms of the MACL Option Schemes were disclosed in the 2015 Interim Report.

DIRECTORS' REPORT

	Original date of grant	Exercise price NZD	Exercisable period	Number of options: Outstanding as at 1 January 2016	Granted during the year	Cancelled during the year	Exercised during the year	Outstanding as at 31 December 2016
MACL Option Schemes								
Directors and employees of MACL	26 January 2011	0.24	January 2012 – January 2016	116,670	–	–	(116,670)	–
	26 January 2011	0.24	January 2013 – January 2016	200,000	–	–	(200,000)	–
	11 July 2012	0.24	July 2015 – July 2016	150,000	–	–	–	150,000
	1 April 2013	0.24	April 2014 – April 2018	1,000,000	–	–	–	1,000,000
	1 April 2013	0.24	April 2015 – April 2018	1,000,000	–	–	–	1,000,000
	1 April 2013	0.24	April 2016 – April 2018	1,000,000	–	–	–	1,000,000
	1 November 2014	0.43	September 2014 – September 2019	1,013,332	–	(800,000)	–	213,332
	1 November 2014	0.43	September 2015 – September 2019	1,280,000	–	(800,000)	–	480,000
	1 November 2014	0.43	September 2016 – September 2019	1,280,000	–	–	–	–
	1 November 2014	0.43	September 2017 – September 2019	266,667	–	–	–	–
	1 November 2014	0.43	May 2016 – May 2020	266,667	–	–	–	–
	1 November 2014	0.43	May 2017 – May 2020	266,667	–	–	–	–
	1 November 2014	0.43	May 2018 – May 2020	266,667	–	–	–	–
				8,106,670	–	(1,600,000)	(316,670)	6,190,000
Exercisable				8,106,670				6,190,000
Weighted average exercise price (NZD)				0.3487				0.3333

DIRECTORS' REPORT

SHARE OPTION SCHEMES IN SOLAR SHIP INC. ("Solar Ship")

On 29 May 2015, the Group has completed the acquisition of Solar Ship. As at 29 May 2015, Solar Ship has in aggregate 28,674 outstanding share options granted under the Stock Option Plan adopted by Solar Ship ("Solar Ship Option Scheme").

The purpose of the Solar Ship Option Scheme is to provide incentive to participants in recognition of their contribution to Solar Ship. Detailed terms of the Solar Ship Option Scheme were disclosed in the 2015 Interim Report.

				Number of options				
	Original date of grant	Exercise price	Exercisable period	Outstanding as at 1 January 2016	Granted during the year	Cancelled during the year	Exercised during the year	Outstanding as at 31 December 2016
Solar Ship Option Scheme								
Directors and employees of Solar Ship	30 July 2012	USD100	30 July 2013 – 30 June 2017[1]	100	–	–	–	100
	24 September 2013	USD115	24 September 2014 – 24 September 2018[1]	1,000	–	–	–	1,000
	9 June 2014	CAD100	9 June 2015 – 9 June 2019[1]	19,500	–	–	–	19,500
	1 August 2014	USD100	1 August 2015 – 1 August 2019[1]	1,000	–	–	–	1,000
	1 November 2014	USD100	1 November 2015 – 1 November 2019[1]	3,200	–	–	–	3,200
	7 November 2014	USD115	7 November 2015 – 7 November 2019[1]	87	–	–	(21)	66
	24 November 2014	USD115	24 November 2015 – 24 November 2019[1]	87	–	(87)	–	–
				24,974	–	(87)	(21)	24,866
Exercisable				6,542				12,722
Weighted average exercise price (USD)				82.99				82.85

(1) Commencing from the first, second, third and fourth anniversaries of the date of grant of the options, the relevant grantee may exercise up to 25%, 25%, 25% and 25% respectively of the options granted.

DIRECTORS' REPORT

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Share Option Scheme and the RSA Scheme as mentioned above, at no time during the year ended 31 December 2016 was the Company or its subsidiaries, or fellow subsidiaries a party to any arrangements to enable the Directors or their respective associates 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 ended 31 December 2016.

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 annual report, the Company has maintained sufficient public float as required under the Listing Rules.

COMPETING INTERESTS

During the year ended 31 December 2016, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

CHANGE IN INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Please refer to section "Biographical Details of Directors and Senior Management" in this Annual Report.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to, the Shares, they are advised to consult an expert.

DIRECTORS' REPORT

EVENT AFTER REPORTING PERIOD

Please refer to section "Events after the reporting period" of the Management Discussion and Analysis in this Annual Report.

REVIEW BY THE AUDIT COMMITTEE

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 CG Code (as defined below). The Audit Committee has reviewed the audited results for the year ended 31 December 2016 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 financial statements for the year ended 31 December 2016 have been audited by Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu were appointed as auditor 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 2017

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report of the Group for the year ended 31 December 2016.

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.

Save as the the deviations from the code provisions A.6.7 and E.1.2 of the CG Code, the Company has complied with the CG Code during the year under review.

Code provisions A.6.7 and E.1.2 of the the CG Code stipulate that independent non-executive directors and the chairman of the board of directors should attend annual general meetings. Dr. Liu Jun, an independent non-executive Director, and Dr. Liu Ruopeng, the chairman of the Board ("Chairman"), did not attend the annual general meeting held on 27 June 2016, due to other business commitments. Nevertheless, the Chairman appointed Dr. Luan Lin, an executive Director, who is well versed in all business activities and operations of the Group, as his delegate to attend and chair at such general meeting on behalf of Dr. Liu Ruopeng and to respond to shareholders' questions. In addition, the Board believes that the presence of other independent non-executive Directors at such general meeting has allowed the Board to develop a balanced understanding of the views of shareholders.

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. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

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

Board diversity

The Company has recognised the importance of board diversity to corporate governance and the board effectiveness in terms of examination and evaluation of corporate issues from different perspectives. As such, the Company adopted a board diversity policy (the "Diversity Policy") which sets out the objectives and principle regarding board diversity in 2016.

Pursuant to the Diversity Policy, the Company considers board diversity from a number of aspects, including but not limited to gender, race, language, cultural and educational background, industry and professional experience. The ultimate decision would be based on merit and contribution the selected candidates would bring to the Board as well as the Company's business needs.

Having reviewed the Diversity Policy and the Board's composition, the Nomination Committee considers that the requirements set out in the Diversity Policy had been met.

Composition

The Board currently comprises five executive Directors, one non-executive Director and three independent non-executive Directors from different business and professional fields. The Directors, including non-executive Director and 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 Mr. Dorian Barak
Non-executive Director	Mr. Song Dawei
Independent Non-executive Directors	Dr. Liu Jun Dr. Wong Kai Kit Ms. Cao Xinyi

The profiles of each director are set out in the "Biographical Details of Directors and Senior Management" section on pages 22 to 24. Saved as disclosed in this annual report (if any), to the knowledge of the Directors, the Board members have no financial, business, family or other material relationship with each other.

Chairman and Chief Executive Officers

Dr. Liu Ruopeng is the chairman of the Company, Dr. Zhang Yangyang and Dr. Luan Lin are the co-chief executive officers ("CEOs") of the Company. The roles of the chairman and CEOs 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 CEOs are responsible for the day-to-day management of the Group's business, recommending strategies to the Board, and determining and implementing operational decisions.

CORPORATE GOVERNANCE REPORT

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 and officers.

Independent Non-Executive Directors

Throughout the period and up to the date of this report, the Company has complied with the requirements under Rule 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.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Appointments, re-election and removal of Directors

Each of Mr. Dorian Barak, Mr. Song Dawei and Ms. Cao Xinyi 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. Dr. Zhang Yangyang, Dr. Luan Lin and Mr. Ko Chun Shun Johnson 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, (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 and (iii) one-third of the Directors for the time being shall retire from office by rotation, provided that every Director shall be subject to retirement by rotation at least once every three years.

Role and function of the Board and the management

An updated list of the directors of the Company identifying their role and function is maintained on the websites of the Stock Exchange ("HKEx") and the Company.

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.

CORPORATE GOVERNANCE REPORT

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 A.6.5 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 2016 to the Company.

BOARD COMMITTEES

The Board has established three committees, namely the Remuneration Committee, the Audit Committee and the 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. Wong Kai Kit with Dr. Zhang Yangyang and Dr. Liu Jun 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. The written terms of reference of Remuneration Committee are available on the websites of the Stock Exchange and the Company.

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 note 13 to the consolidated financial statements.

In addition, pursuant to the code provision B.1.5, the annual remuneration of the member of the current senior management (other than the Directors) by band for the year ended 31 December 2016 is set out below:

Remuneration band (in HK$)	Number of individuals
HK$nil to 1,000,000	5
1,000,001 to 3,000,000	1
3,000,001 to 4,000,000	–
7,000,001 to 8,000,000	1
10,000,001 to 11,000,000	1

CORPORATE GOVERNANCE REPORT

Audit Committee

The Audit Committee comprises three independent non-executive directors. The committee is chaired by Ms. Cao Xinyi 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; and

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

The written terms of reference of Audit Committee are available on the websites of the Stock Exchange and the Company.

The Audit Committee held two meetings during the year ended 31 December 2016 to review the financial results and reports of the Company with the external auditors. Pursuant to the code provision C.3.3 of the CG Code, the Audit Committee should meet with the Company's auditors at least twice a year. During the year, the Company had met the auditor twice.

Nomination Committee

The Nomination Committee comprises one executive Director and two independent non-executive Directors. The committee is chaired by Dr. Liu Ruopeng with Dr. Wong Kai Kit 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. The written terms of reference of Nomination Committee are available on the websites of the Stock Exchange and the Company.

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.

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

CORPORATE GOVERNANCE REPORT

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 seven times during the year ended 31 December 2016.

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 2016 is set out in the table below:

	Meetings attended/Eligible to attend				
	Board of Directors	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meetings**
Executive Directors					
Dr. Liu Ruopeng	7/7	N/A	N/A	1/1	0/1
Dr. Zhang Yangyang	7/7	N/A	1/1	N/A	0/1
Dr. Luan Lin	7/7	N/A	N/A	N/A	1/1
Mr. Ko Chun Shun, Johnson	6/7	N/A	N/A	N/A	0/1
Mr. Dorian Barak*	N/A	N/A	N/A	N/A	N/A
Non-executive Director					
Mr. Song Dawei*	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Director					
Dr. Liu Jun	6/7	2/2	1/1	1/1	0/1
Dr. Wong Kai Kit	6/7	2/2	1/1	1/1	1/1
Ms. Cao Xinyi#	1/1	N/A	N/A	N/A	N/A
Ms. Zong, Nan^	1/3	1/1	N/A	N/A	N/A

* Appointed on 1 February 2017
\# Appointed on 20 October 2016
^ Retired on 27 June 2016

Apart from regular Board Meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of executive Directors during the year under reviewed.

CORPORATE GOVERNANCE REPORT

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 function

The Board is responsible for developing and reviewing the Company's policies and practices on corporate governance and performing corporate governance duties as set out in code provision D.3.1. of CG Code The following is a non-comprehensive summary of the duties performed by the Board for the year:

- Reviewed and monitored the training and continuous professional development of Directors;
- Reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- Reviewed and monitored the code of conduct applicable to employees and Directors; and
- Reviewed the Company's compliance with the CG Code and disclosure in the 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 2016, 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. Pursuant to the code provision C.1.1 of the CG Code, the management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

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 52 to 59.

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. The Board designated this responsibility to Audit Committee. The Audit Committee reviews the risk management and internal control systems twice every year. A review has been conducted during the year and the Company considers the risk management and internal control systems were effective and adequate. As at the date of this report, the Company has an internal audit function.

CORPORATE GOVERNANCE REPORT

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 designated this responsibility to Audit Committee. The Audit Committee has conducted a review of the effectiveness and adequacy of the risk management and internal control systems of the Group annually 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 52 to 59 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.

During the year ended 31 December 2016, 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$
Audit services	2,380,000
Other non-audit services	250,000
Total	2,630,000

SHAREHOLDER RIGHTS, INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

Shareholders' 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 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.

CORPORATE GOVERNANCE REPORT

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 days or 20 clear business days notice is given (which ever is longer).

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 2016, there are no changes in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF KUANGCHI SCIENCE LIMITED
光啟科學有限公司
(Incorporated in Bermuda with limited liability)

Opinion

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 60 to 157, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key audit matter	**How our audit addressed the key audit matter**
1. Impairment assessment of trade receivables	
We identified the impairment assessment of trade receivables as a key audit matter due to the significant management judgement involved in assessing the recoverability of the trade receivables. In determining the impairment of trade receivables, the management considers the background of the debtors, credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables. As disclosed in note 27 to the consolidated financial statements, the Group has trade receivables amounting to HK$326,994,000 of which HK$97,574,000 was overdue as at 31 December 2016. No impairment was recognised during the year ended 31 December 2016.	Our procedures in relation to the impairment assessment of trade receivables included: • Testing the aging analysis of the trade receivables to the source documents, including the terms stated in the sales agreements; • Sending out confirmation to all customers to confirm the outstanding balances; • Checking settlement during the year and subsequent settlement of receivables to the source documents, including bank-in slips; • Discussing with the management the actions they have taken to recover the long outstanding balances of trade receivables; and • Assessing the reasonableness of recoverability of trade receivables with reference to the background of the debtors, the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of each individual debtor.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key audit matter

2. Impairment assessment of goodwill and other intangible assets

We identified the impairment assessment of goodwill and other intangible assets as a key audit matter due to the significant judgement exercised by the Group's management in respect of the estimation of the recoverable amount based on the value-in-use of the cash-generating units ("CGUs") to which goodwill and intangible assets have been allocated. The Group engages independent professional valuers ("Valuers") to perform such valuation.

As disclosed in note 17 to the consolidated financial statements, goodwill with a carrying value of HK$41,563,000, net of accumulated impairment losses of HK$39,382,000, is attributable to CGUs operating in development and commercialisation of jetpack products business and unmanned aircraft business.

As disclosed in note 18 to the consolidated financial statements, the Group has intangible assets with carrying values of HK$214,527,000 as at 31 December 2016, which mainly represent capitalised development cost, patented technical knowledge and techniques acquired through acquisitions of subsidiaries to develop and commercialise jetpack products, solar powered aircrafts and unmanned aircrafts.

The value-in-use calculation relies on the management's assumptions and estimates of future operating performance of these products and the key data and assumptions applied by the management including the discount rate and perpetual growth rate.

How our audit addressed the key audit matter

Our procedures in relation to the impairment assessment of other intangible assets and goodwill included:

- Obtaining an understanding of the basis adopted in the value-in-use calculations prepared by the management with reference to the valuation reports prepared by Valuers;
- Evaluating the Valuers' competence, capabilities and objectivity and reviewing their terms of engagement with the Group;
- Discussing with the Valuers to understand and evaluate the appropriateness of the valuation methodology used to determine the recoverable amount;
- Reviewing the management's data used in the valuation and assessing the reasonableness of the assumptions by (1) comparing the inputs with the financial budget approved by the management; (2) engaging our valuation specialist to assess the appropriateness of the discount rate used and comparing the rates to benchmark data; (3) comparing perpetual growth rate to recent industry and economic data and the Group's specific information and (4) assessing the expected launch dates of these products by obtaining an understanding of the development status of each product and the Group's future business plan.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key audit matter

3. Impairment assessment of loan receivables and earnest monies paid

We identified the impairment assessment of loan receivables and earnest monies paid as a key audit matter due to significant management judgement involved in assessing the recoverability of these balances in view of the uncertainties in the financial abilities of borrowers and the outcome of projects related to earnest money paid.

As disclosed in note 28 and 27 to the consolidated financial statements, the Group has loan receivables and earnest monies paid amounting to HK$295,700,000 and HK$126,354,000 respectively as at 31 December 2016. The loan receivables are interest bearing and unsecured, while the earnest monies paid represent refundable deposits paid for projects with independent third parties.

Significant management judgement is required in determining whether there are any impairments on these loan receivables and earnest monies paid.

How our audit addressed the key audit matter

Our procedures in relation to the impairment assessment of loan receivables and earnest monies paid included:

- Obtaining an understanding of management's assessment of the recoverability of the loan receivables and earnest monies paid and procedures for making impairments to write down the loan receivables and earnest monies paid to their recoverable amounts;

- For loan receivables and earnest monies that have been settled/refunded after the end of the reporting period, checking documentation evidencing the settlements, including the bank-in slips and settlement confirmation;

- For loan receivables that have not been settled after the end of the reporting period, assessing the recoverability with reference to the background of the counterparty and its underlying financial support from a company controlled by Dr. Liu Ruopeng, the controlling shareholder and executive director of the Group, which also holds 20% shares of the counterparty.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key audit matter

4. Valuation of subscription right of Zhejiang Longsheng Automotive Parts Stock Limited Corporation ("Longsheng") shares

We identified the valuation of subscription right of Longsheng shares as a key audit matter due to the significant management estimation involved in determinating the fair value of this right.

As disclosed in note 23 to the consolidated financial statements, during the year ended 31 December 2015, the Group obtained a right to subscribe for new shares of Longsheng at a consideration of RMB300 million upon the approval from the China Securities Regulatory Commission ("CSRC"). During the year ended 31 December 2016, all the conditions of the subscription agreement were satisfied. The subscription right is a derivative and accordingly is measured at fair value through profit or loss.

The Company engaged Valuers to determine the fair value of the subscription right of Longsheng shares, and the fair value was determined by market approach. The key inputs are the market price of the shares and a discount factor to reflect the impact of lock-up period embedded in the shares. The fair value at the initial recognition date and 31 December 2016 were determined to be HK$1,021,151,000 and HK$791,238,000 respectively.

How our audit addressed the key audit matter

Our procedures in relations to valuation of subscription right of Longsheng shares included:

- Understanding the valuation basis, methodology used and underlying assumptions applied by Valuers with reference to the terms stated in the subscription agreement signed between the Group and Longsheng and the approval from CSRC;
- Evaluating the Valuers' competence, capabilities and objectivity and reviewing their terms of engagement with the Group;
- Discussing with the Valuers to understand and evaluate the appropriateness of the valuation methodology used to determine the fair value of the subscription right of Longsheng share; and
- Reviewing the management's data used in the valuation and evaluating the reasonableness of the discount factor, with the assistance of our valuation specialist.

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Sunnie Sy.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000 (Restated)
Continuing operations			
Revenue	5	**290,492**	279,162
Cost of sales		**(92,046)**	(58,478)
Gross profit		**198,446**	220,684
Other income	7	**55,316**	125,675
Other gains and losses	8	**816,969**	(43,448)
Impairment loss recognised in respect of goodwill	19	**(39,382)**	–
Share of results of associates	21	**(2,858)**	(654)
Selling and distribution expenses		**(39,975)**	(32,064)
Research and development expenses		**(110,027)**	(110,791)
Administrative expenses		**(136,899)**	(107,757)
Finance costs	9	**(4,126)**	(8,663)
Profit before tax		**737,464**	42,982
Income tax expense	10	**(140,430)**	(14,761)
Profit for the year from continuing operations	12	**597,034**	28,221
Discontinued operations			
Loss for the year from discontinued operation	11	**(490)**	(33,205)
Profit (loss) for the year		**596,544**	(4,984)
Other comprehensive loss			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translating foreign operations		**(46,276)**	(62,090)
Reclassified to profit or loss upon disposal of foreign operation		**(1,088)**	–
Total comprehensive income (expense) for the year		**549,180**	(67,074)
Profit (loss) for the year attributable to owners of the Company:			
– from continuing operations		**664,805**	63,217
– from discontinued operation		**(490)**	(33,205)
Profit for the year attributable to owners of the Company		**664,315**	30,012
Loss for the year attributable to non-controlling interests:			
– from continuing operations		**(67,771)**	(34,996)
– from discontinued operation		**–**	–
		596,544	(4,984)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000 (Restated)
Profit (loss) for the year attributable to:			
Owners of the Company		**664,315**	30,012
Non-controlling interests		**(67,771)**	(34,996)
		596,544	(4,984)
Total comprehensive profit (loss) attributable to:			
Owners of the Company		**619,086**	(30,618)
Non-controlling interests		**(69,906)**	(36,456)
		549,180	(67,074)
Earnings per share	15		
From continuing and discontinued operations			
Basic (HK cents per share)		**11.33**	0.65
Diluted (HK cents per share)		**10.53**	0.49
From continuing operations			
Basic (HK cents per share)		**11.34**	1.37
Diluted (HK cents per share)		**10.53**	1.04

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Plant and equipment	16	**149,435**	124,477
Goodwill	17	**41,563**	71,746
Other intangible assets	18	**214,527**	147,470
Investment property	20	**13,800**	13,700
Investment in associates	21	**33,166**	4,290
Available-for-sale investments	22	**29,040**	–
Derivative financial assets	23	**798,912**	51,300
Prepaid lease payments	24	**83,581**	91,749
Deposits paid for acquisition of plant and equipment		**25,634**	31,474
Pledged deposit	25	**–**	143,280
Loan receivables	28	**21,711**	–
Prepayment for advertising		**5,389**	11,940
		1,416,758	691,426
CURRENT ASSETS			
Prepaid lease payments	24	**2,204**	2,357
Inventories	26	**149,310**	44,037
Trade and other receivables	27	**522,938**	358,061
Loan receivables	28	**273,989**	–
Income tax recoverable		**2,949**	8,339
Time deposit	25	**252,005**	125,133
Structured bank deposit	25	**13,397**	–
Bank balances and cash	25	**870,558**	1,228,556
		2,087,350	1,766,483
CURRENT LIABILITIES			
Trade and other payables, and deferred revenue	29	**361,520**	120,056
Income tax payable		**23,427**	14,589
Obligations under finance lease			
– amount due within one year		**–**	233
Bank borrowing	30	**264,147**	–
Convertible debenture	31	**6,584**	5,569
		655,678	140,447
NET CURRENT ASSETS		**1,431,672**	1,626,036
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,848,430**	2,317,462

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT LIABILITIES			
Bank borrowings	30	–	142,397
Deferred tax liabilities	32	118,719	67
		118,719	142,464
NET ASSETS		2,729,711	2,174,998
CAPITAL AND RESERVES			
Share capital – Ordinary shares	33	60,894	57,137
Share capital – Preferred shares	33	–	3,757
Reserves		2,400,041	1,861,237
Equity attributable to owners of the Company		2,460,935	1,922,131
Non-controlling interest		268,776	252,867
TOTAL EQUITY		2,729,711	2,174,998

The consolidated financial statements on pages 60 to 157 were approved and authorised for issue by the Board of Directors on 31 March 2017 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 2016

	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) /retained earnings 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 2015	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) income for the year	–	–	–	–	–	–	–	(60,630)	30,012	(30,618)	–	–	(36,456)	(36,456)	(67,074)
Subscription of preferred shares (note 33)	–	16,100	–	187,819	–	–	–	–	–	203,919	–	–	–	–	203,919
Conversion of preferred shares (note 33)	23,076	(23,076)	161,538	(161,538)	–	–	–	–	–	–	–	–	–	–	–
Acquisition of subsidiaries (note 38)	–	–	–	–	(24,201)	–	–	–	–	(24,201)	11,325	3,823	259,913	275,061	250,860
Change in shareholding in a subsidiary without losing control	–	–	–	–	–	–	–	–	–	–	–	–	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
Profit (loss) for the year	–	–	–	–	–	–	–	–	664,315	664,315	–	–	(67,771)	(67,771)	596,544
Other comprehensive expense for the year	–	–	–	–	–	–	–	(45,229)	–	(45,229)	–	–	(2,135)	(2,135)	(47,364)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	(45,229)	664,315	619,086	–	–	(69,906)	(69,906)	549,180
Conversion of preferred shares (note 33)	3,757	(3,757)	26,281	(26,281)	–	–	–	–	–	–	–	–	–	–	–
Acquisition of subsidiaries (note 38)	–	–	–	–	–	–	–	–	–	–	843	–	4,521	5,364	5,364
Derivative financial assets derecognised upon exercise of the underlying options (note 23)	–	–	–	–	–	–	–	–	(61,016)	(61,016)	–	–	–	–	(61,016)
Change in shareholding in existing subsidiary without losing control upon exercise of underlying options	–	–	–	–	–	–	–	–	(82,392)	(82,392)	–	–	82,392	82,392	–
Recognition of share-based payment	–	–	–	–	–	–	63,126	–	–	63,126	(1,941)	–	–	(1,941)	61,185
Balance at 31 December 2016	60,894	–	2,096,146	–	(6,301)	103,941	141,056	(106,394)	171,593	2,460,935	14,573	3,823	250,380	268,776	2,729,711

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 38(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 and 30 September 2015 as set out in note 35.

(d) The balance of share-based payment reserves of subsidiaries represent share options granted by subsidiaries as set out in note 38(a), 38(b) and 38(c).

(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 38(c).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES		
Profit before tax from continuing operations	**737,464**	42,982
Loss before tax from discontinued operation	**(490)**	(33,205)
Profit before tax	**736,974**	9,777
Adjustments for:		
Depreciation of plant and equipment	**10,226**	6,950
Amortisation of intangible assets	**14,444**	9,142
Amortisation of prepaid lease payments	**2,302**	203
Interest income on bank balance, time deposit and pledged deposit	**(12,490)**	(50,643)
Interest income on loan receivables	**(2,833)**	–
Gain on change in fair value of Investment property	**(100)**	(600)
Gain on disposal of a subsidiary	**(2,213)**	–
Loss on disposal of plant and equipment	**(737)**	(1,060)
Write off of plant and equipment	**–**	2,155
Impairment loss recognised in respect of goodwill	**39,382**	13,501
Loss on change in fair value of derivative financial assets	**212,523**	663
Gain on initial recognition of subscription right of Longsheng shares	**(1,021,151)**	–
Finance costs	**4,126**	8,874
Impairment of associate	**–**	6,690
Share of results of associates	**2,858**	654
Write-down of inventories	**–**	1,144
Gain on deemed disposal of an associate	**(13,181)**	–
Share-based payment expenses	**61,185**	64,138
Operating cash flows before movements in working capital	**31,315**	71,588
Increase in inventories	**(113,135)**	(14,537)
Increase in trade and other receivables	**(184,337)**	(312,777)
Increase in trade and other payables	**285,669**	11,263
Decrease (increase) in prepayment for advertising	**12,947**	(12,322)
Decrease in long term payable	**–**	(352)
Cash generated from (used in) operations	**32,459**	(257,137)
Income tax paid	**(7,529)**	(3,742)
Interest paid	**(2,508)**	(8,874)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**22,422**	(269,753)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
INVESTING ACTIVITIES			
Purchase of plant and equipment		**(64,305)**	(134,808)
Purchase of intangible assets		**(72,071)**	(4,522)
Addition of prepaid lease payment		**–**	(97,320)
Proceeds from disposal of plant and equipment		**9,610**	3,649
Interest received		**8,466**	43,769
Advance of loan receivables		**(295,700)**	–
Release of deposit paid for acquisition of a company		**–**	135,200
Release of time deposit		**125,133**	–
Placement of time deposit		**(252,005)**	(125,133)
Release of pledged deposit		**143,280**	187,575
Placement of pledged deposit		**–**	(143,280)
Placement of structural deposit		**(13,397)**	–
Net cash inflow from disposal of a subsidiary	39	**8,311**	–
Deposits paid for acquisition of plant and equipment		**–**	(23,403)
Investment in available-for-sale investment		**(29,040)**	–
Investment in an associate		**(33,343)**	(11,634)
Net cash inflow from acquisition of subsidiaries	38(a)	**767**	19,755
NET CASH USED IN INVESTING ACTIVITIES		**(464,294)**	(150,152)
FINANCING ACTIVITIES			
Proceeds from bank borrowings		**264,147**	142,397
Repayment of bank borrowings		**(142,397)**	(140,000)
Proceeds from issue of preferred shares		**–**	203,919
Contribution from non-controlling interest		**–**	4,914
Repayment of principal for obligations under finance lease		**(233)**	(1,547)
NET CASH GENERATED BY FINANCING ACTIVITIES		**121,517**	209,683
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(320,355)**	(210,222)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**1,228,556**	1,485,818
Effect of foreign exchange rate changes		**(37,643)**	(47,040)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Bank balances and cash		**870,558**	1,228,556

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 ("Dr. Liu R") , 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 located at Unit 515-518, 5/F., Building 16W, No. 16 Science Park West Avenue, Hong Kong Science Park, Pak Shek Kok, New Territories, 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 future technology business, manufacturing and trading of paper packaging products and property investment. Details of the principal subsidiaries are set out in note 44.

2. APPLICATION OF NEW AND AMENDMENTS TO 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 HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10 HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 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 2016

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

New and amendments to 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 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

HKFRS 9 *Financial Instruments*

HKFRS 9 introduces new requirement for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirement for financial assets.

Key requirements of HKFRS 9 that are relevant to the Group is as follows:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be 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 that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 9 *Financial Instruments* (Continued)

- 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.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investment, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfilment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practical to provide a reasonable estimate of that effect until a detail review has been completed.

HKFRS 15 *Revenue from Contracts with Customers*

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

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 result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs 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 consolidated financial statements have been prepared on the historical cost basis except for certain Investment property 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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 relevant components of equity including reserves 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 after re-attribution of the relevant equity component and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners 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 attributable to the owners of the Company. 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 amount of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed as at acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

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, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or groups of cash-generating units) 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. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to be other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or groups of cash-generating units).

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.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates

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.

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 the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in an associate (Continued)

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. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised the purchasers accept delivery, and installation and inspection are complete. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Maintenance fees and consultancy fees in relation to future technology business are recognised when service is rendered.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

Interest income 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Plant and equipment

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.

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.

Depreciation is recognised so as to write-off the cost of items of 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 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.

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 Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible intangible assets with finite useful lives 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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 pre-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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value-in-use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment property

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

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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 owners 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2016

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 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), available-for-sale ("AFS") financial assets 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 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

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, loan receivables, 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).

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, other than those at FVTPL, 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 AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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 repayment date stated in each sales agreement, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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.

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 and trade and other payables) are subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

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 have expired. 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.

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 debenture 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 35.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment arrangements (Continued)

Share-based payment transactions (Continued)

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 of the Company 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 2016

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.

Control over Solar Ship Inc. ("Solar Ship")

Note 38 describes that Solar Ship are subsidiaries of the Group although the Group has only 32.58% ownership interest and voting rights in Solar Ship.

The directors of the Company assessed whether or not the Group has control over Solar Ship based on whether the Group has the practical ability to direct the relevant activities of 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 subsidiaries as discussed in note 38. After assessment, the directors concluded that the Group has sufficiently dominant voting interest to direct the relevant activities of Solar Ship and therefore the Group has control over Solar Ship.

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.

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 2016, the carrying amount of trade receivable is HK$326,994,000 (31 December 2015: HK$310,446,000). As set out in note 27, included in trade receivables overdue are balances arising from the sales of two "Clouds", amounting to approximately HK$97,574,000. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Key sources of estimation uncertainty (Continued)

Estimated impairment loss in respect of goodwill and intangible assets

Determining whether goodwill or intangible assets 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 2016, the carrying amount of goodwill is approximately HK$41,563,000 (31 December 2015: HK$71,746,000), net of impairment loss of approximately HK$39,382,000 recognised in the current period (31 December 2015: HK$13,501,000), and the carrying amount of intangible assets is approximately HK$214,527,000 (31 December 2015: HK$147,470,000). Details of the recoverable amount calculation are disclosed in note 19.

Estimated impairment of loan receivables and earnest money

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. No impairment is made for the year. As at 31 March 2016, the carrying amount of loan receivables is HK$295,700,000 (2015: Nil). Further details of the Group's credit quality assessment is set out in note 28.

Fair value of subscription right of Longsheng shares

At the end of the reporting period, subscription right for shares of Longsheng (as defined in note 23) is stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have adopted market approach and the key inputs are the market price of the shares and a discount factor to reflect the impact of lock-up period embedded in the shares. The discount factor is determined based on volatilities of the shares and risk free rate. 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 derivative financial instruments being recognised in profit or loss. The carrying amount of subscription right for shares of Longsheng measured at fair value at 31 December 2016 is approximately HK$791,238,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. REVENUE

An analysis of the Group's revenue for the year from continuing operations is as follows:

	2016 HK$'000	2015 HK$'000 (Restated)
Revenue from the sales of the "Cloud" (note a)	**284,050**	258,885
Revenue from the maintenance of the "Cloud"	**6,082**	–
Revenue from future technology consultancy services	**–**	19,921
Revenue from rental income (note b)	**360**	356
	290,492	279,162

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 property is as follows:

	2016 HK$'000	2015 HK$'000
Gross rental income	**360**	356
Less: Outgoings (included in cost of sales)	**(13)**	(6)
Net rental income	**347**	350

6. SEGMENT INFORMATION

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors, the chief operating decision maker (the "CODM"), in order to allocate resources to the segments and to assess their performance.

In prior year, the Group's reportable and operating segments under HKFRS 8 were 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 2016

6. SEGMENT INFORMATION (Continued)

Following the discontinuation of paper business in current year, the financial information provided to the CODM does not contain profit or loss information of each product line or each market segment and the CODM review the operating results of the Group on a consolidated basis. Therefore, the operation of the Group constitutes one single reportable segment and no further analysis of segments is presented. Prior year figures have been restated to conform with current year presentation.

Segment revenue and results

The financial information presented to the CODM is consistent with the consolidated statement of profit or loss and other comprehensive income. The CODM consider the Group's profit for the year as the measurement of segment's results.

Geographical information

The Group operates in four principal geographical areas – the People's Republic of China (excluding Hong Kong) ("PRC"), 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. Information about the Group's non-current assets is presented based in the geographical locations of the assets.

	Revenue from external customers		Non-current assets*	
	2016 HK$'000	2015 HK$'000 (Restated)	**2016 HK$'000**	2015 HK$'000
PRC	**290,132**	278,806	**215,652**	182,710
Hong Kong	**360**	356	**16,329**	17,541
New Zealand	**–**	–	**187,947**	146,788
Canada	**–**	–	**108,612**	108,798
	290,492	279,162	**528,540**	455,837

* Non-current assets exclude financial instruments, investment in an associate and long-term prepayment.

Information about major customers

Revenues from customers contributing over 10% of the total sales of the Group are all from future technology segment for the years ended 31 December 2016 and 2015:

	2016 HK$'000	2015 HK$'000
Customer 1	**142,025**	N/A#
Customer 2	**142,025**	N/A#
Customer 3	**N/A#**	156,518
Customer 4	**N/A#**	102,367

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. OTHER INCOME

	2016 HK$'000	2015 HK$'000 (Restated)
Continuing operations		
Interest income earned on bank balances and pledged deposit	**12,490**	49,740
Interest income earned on loan receivables (note 28)	**2,833**	–
Government subsidy (note a)	**35,438**	73,932
Sundry income	**4,555**	2,003
	55,316	125,675

Notes:

(a) During the year ended 31 December 2016, the Group received a government grant amounting to RMB30,000,000 (equivalent to HK$33,492,000) to co-operate with management committee of a city government in China ("the Committee") to develop the technology for flying apparatus platform. As per the agreement, 80% of the grant (RMB24,000,000, equivalent to HK$26,794,000) is non-refundable and the remaining 20% (RMB6,000,000, equivalent to HK$6,698,000) is subject to the government's assessment and will be refunded if the target stated in the agreement cannot be reached. As at 31 December 2016, the Company had reached the target set out in the agreement. As the government's assessment is not completed at year end, the Group had recognised 80% of the grant as other income in the current year and the remaining 20% as deferred revenue as set out in note 29 (a). During the year ended 31 December 2016, the Group also received another two unconditional government grants amounted to HK$8,644,000 as a subsidy of research and development expenditures incurred in 2016.

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 RMB60,000,000 (equivalent to HK$73,932,000) from the Office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. OTHER GAINS AND LOSSES

	2016 HK$'000	2015 HK$'000 (Restated)
Continuing operations		
Loss on disposal of plant and equipment	**(737)**	–
Gain on deemed disposal of investment in an associate (note 21)	**13,181**	–
Gain from change in fair value of investment properties (note 20)	**100**	600
Impairment loss recognised in respect of investment in an associate (note 21)	**–**	(6,690)
Loss on change in fair value of derivative financial assets (note 23)	**(212,523)**	(663)
Gain on initial recognition of subscription right of Longsheng shares (note 23)	**1,021,151**	–
Exchange loss, net	**(4,203)**	(36,695)
	816,969	(43,448)

9. FINANCE COSTS

	2016 HK$'000	2015 HK$'000 (Restated)
Continuing operations		
Interest on:		
Bank borrowings	**3,382**	8,174
Interest on convertible debenture	**744**	489
	4,126	8,663

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. INCOME TAX EXPENSE

	2016 HK$'000	2015 HK$'000 (Restated)
Continuing operations		
Current tax		
PRC Enterprise Income Tax	**21,757**	14,715
Hong Kong profits tax	**–**	98
	21,757	14,813
Deferred taxation (note 32)	**118,673**	(52)
	140,430	14,761

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

PRC subsidiaries are subject to PRC Enterprise Income Tax at rate at 25% for the year (2015: 25%), except for two PRC subsidiaries established in Shenzhen which are subject to tax rate at 15% from year 2014 to 2020 and from 2016 to 2018 respectively.

Prima facie tax in New Zealand is calculated at a rate of 28% of the estimated assessable profit for the year ended 31 December 2016 (2015: 28%). Statutory tax in Canada is calculated at a rate of 15.5% of the estimated assessable profit for the year ended 31 December 2016 (2015: 15.5%). No current tax was provided in these jurisdictions for the year ended 31 December 2016 as there were no assessable profit (2015: nil).

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

	2016 HK$'000	2015 HK$'000 (Restated)
Profit before tax	**737,464**	42,982
Tax at Hong Kong tax rate of 16.5%	**121,682**	7,092
Tax effect of different tax rates of subsidiaries' operations in other jurisdictions and region	**(10,911)**	(4,075)
Tax effect of expenses not deductible for tax purposes	**24,233**	38,190
Tax effect of income not taxable for tax purposes	**(7,112)**	(26,519)
Tax effect of unrecognised tax losses	**13,845**	16,379
Utilisation of tax losses previously not recognised	**(1,307)**	(16,306)
Tax charge for the year	**140,430**	14,761

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For the year ended 31 December 2016

11. DISCONTINUED OPERATION

On 26 October 2016, the Group entered into a sale agreement to dispose a subsidiary, Sky Will Printing & Packaging (Holdings) Limited ("Sky Will"), which carried out all of the Group's paper business operation. The disposal was completed on 26 October 2016, on which date control of Sky Will passed to a company owned by the non-controlling shareholder of Sky Will.

The loss for the year from the discontinued paper business operation is set out below. The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to re-present the paper business operation as a discontinued operation.

	2016 **HK$'000**	2015 HK$'000
Loss of paper business operation for the period	**(2,703)**	(33,205)
Gain on disposal of paper business operation (see note 39)	**2,213**	–
	(490)	(33,205)

The results of the paper business operation for the period from 1 January to 26 October 2016, which have been included in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	Period ended **26.10.2016** **HK$'000**	Year ended 31.12.2015 HK$'000
Revenue	**55,649**	74,669
Cost of sales	**(45,122)**	(70,192)
Other gain and loss	**20**	(440)
Impairment of goodwill	**–**	(13,501)
Gain from disposal of paper business	**2,213**	–
Distribution and selling expense	**(2,758)**	(2,954)
Administrative expense	**(10,492)**	(20,576)
Finance costs	**–**	(211)
Loss for the period/year	**(490)**	(33,205)

	Period ended **26.10.2016** **HK$'000**	Year ended 31.12.2015 HK$'000
Net operating cash inflow	**3,581**	2,504
Net investing cash outflow	**(535)**	(5,045)
Net financing cash outflow	**(233)**	(1,400)
Net cash inflow (outflow)	**2,813**	(3,941)

The carrying amounts of the assets and liabilities of Sky Will at the date of disposal are disclosed in note 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

	2016 **HK$'000**	2015 HK$'000
Profit for the year from continuing operations has been arrived at after charging:		
Staff cost, including directors' remuneration (note 13)		
Salaries, wages and other benefits	**161,548**	77,060
Retirement benefits scheme contributions (note 34)	**14,439**	6,188
Share-based payments – equity-settled (note 35)	**61,185**	64,138
	237,172	147,386
Including in		
Inventories	**72,495**	–
Cost	**41,129**	13,608
Selling expenses	**17,250**	14,290
Research and development expense	**46,412**	62,975
Administrative expenses	**59,886**	56,513
Research and development expenses, including staff cost	**110,027**	110,791
Depreciation of plant and equipment	**7,206**	3,419
Amortisation of other intangible assets	**14,444**	9,142
Amortisation of prepaid lease payments	**2,302**	203
Auditor's remuneration	**2,380**	1,380
Operating lease rental on land and buildings	**9,558**	6,607
Cost of inventories recognised as an expense	**85,198**	54,344
Advisory expenses (note 43(ii))	**5,727**	8,036
Advertising expense	**18,965**	14,558

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

2016

	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 R	932	–	557	–	–	1,489
Dr. Zhang Yangyang	874	–	381	–	15,334	16,589
Dr. Luan Lin	816	–	381	–	11,107	12,304
Mr. Ko Chun Shun, Johnson	–	–	–	–	–	–
Independent Non-executive Directors						
Dr. Liu Jun	250	–	–	–	–	250
Dr. Wong Kai Kit	250	–	–	–	–	250
Ms. Zong Nan Δ	123	–	–	–	–	123
Ms. Cao Xinyi*	50	–	–	–	–	50
	3,295	–	1,319	–	26,441	31,055

* appointed on 20 October 2016

Δ retired on 27 June 2016

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For the year ended 31 December 2016

13. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (Continued)

2015

	Fee	Salary and other allowance	Bonus	Retirement benefits scheme contributions	Share-based payment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors						
Dr. Liu R	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 Tak∆	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

* appointed on 1 October 2015
\# resigned on 27 February 2015
∆ resigned on 30 September 2015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (Continued)

During the years ended 31 December 2016 and 2015, no amount was paid in respect of Mr. Ko Chun Shun, Johnson's ("Mr. Ko") directorship.

Dr. Zhang Yangyang and Dr. Luan Lin are the chief executives of the Company and their emoluments disclosed above include those for services rendered by them as the chief executives.

Neither the chief executive nor any of the directors waived or agreed to waive any emoluments during the years ended 31 December 2016 and 2015.

The executive directors are entitled to bonus for the year ended 31 December 2016 which is determined with reference to the performance of the Group.

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 years ended 31 December 2016 and 2015.

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

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

Subsequent to the year end, with effect from 1 February 2017, Mr. Dorian Barak has been appointed as an executive director of the Company and Mr. Song Dawei has been appointed as a non-executive director of the Company.

Five highest paid employee

The five highest paid employees in the Group during the year included two directors (2015: two directors), details of whose remuneration are included in the disclosures above. Details of the remuneration of the remaining three (2015: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016	2015
	HK$'000	HK$'000
Salaries and other allowances	**2,317**	3,717
Performance related bonuses	**849**	–
Retirement benefit scheme contributions	**–**	–
Share based payments	**16,463**	22,716
	19,629	26,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (Continued)

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	2016 Number of Individuals	2015 Number of Individuals
HK$2,000,001 to HK$2,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**–**	1
HK$7,000,001 to HK$7,500,000	**1**	–
HK$9,500,001 to HK$10,000,000	**–**	1
HK$10,000,001 to HK$10,500,000	**1**	–
HK$14,500,001 to HK$15,000,000	**–**	1
	3	3

14. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: Nil).

15. EARNINGS PER SHARE

For continuing operations

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

Earning figures are calculated as follows:

	2016 HK$'000	2015 HK$'000
Profit for the year attributable to owners of the company	**664,315**	30,012
Less: Loss for the year from discontinued operation	**(490)**	(33,205)
Earnings for the purpose of basic earnings per share from continuing operations	**664,805**	63,217
Effect of dilutive potential ordinary shares:		
Adjustment to the share of loss of subsidiaries based on dilution of their earnings per share in relation to the Conversion Rights (as defined in note 38)	**(17,672)**	–
Earnings for the purpose of diluted earnings per share from continuing operations	**647,133**	63,217

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For the year ended 31 December 2016

15. EARNINGS PER SHARE (Continued)

For continuing operations (Continued)

	2016	2015
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,864,344,200**	4,605,995,646
Effect of dilutive potential ordinary shares:		
Preferred shares (note 33)	**225,056,925**	1,483,405,479
Share options of the Company (note 35)	**53,924,417**	11,894,624
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,143,325,542**	6,101,295,749

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share from continuing and discontinued operations attributable to owners of the Company is based on the following data:

	2016 HK$'000	2015 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share	**664,315**	30,012
Effect of dilutive potential ordinary shares:		
Adjustment to the share of loss of subsidiaries based on dilution of their earnings per share in relation to the Conversion Rights (as defined in note 38)	**(17,672)**	–
Earnings for the purpose of diluted earnings per share from continuing operations	**646,643**	30,012

For the years ended 31 December 2016 and 2015, the computation of diluted earnings per share does not assume the conversion of a subsidiary'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.

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16. 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 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	42,971	96,594
Addition through business combination (note 38)	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	44,805	138,123
Additions	5,112	469	2,670	1,278	1,270	59,346	70,145
Addition through business combination (note 38)	–	–	408	1,547	–	–	1,955
Disposals	–	–	–	–	–	(8,873)	(8,873)
Disposal through disposal of a subsidiary (note 39)	(23,159)	(8,059)	–	–	(2,131)	–	(33,349)
Exchange realignment	(520)	(347)	(222)	7	(307)	(4,539)	(5,928)
At 31 December 2016	47,715	561	10,133	7,079	5,846	90,739	162,073
DEPRECIATION							
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
Provided for the year	4,385	792	1,621	1,562	1,866	–	10,226
Disposal through disposal of a subsidiary (note 39)	(7,582)	(1,247)	–	–	(1,575)	–	(10,404)
Exchange realignment	(612)	(46)	(49)	(1)	(122)	–	(830)
At 31 December 2016	4,757	242	3,864	1,850	1,925	–	12,638
CARRYING VALUES							
At 31 December 2016	42,958	319	6,269	5,229	3,921	90,739	149,435
At 31 December 2015	57,716	7,755	4,985	3,958	5,258	44,805	124,477

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16. PLANT AND EQUIPMENT (Continued)

The above items of plant and equipment, except for construction in progress, 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 2016 and 31 December 2015 represents warehouses and machineries for future technology 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.

Note: During the year ended 31 December 2015, construction in progress amounting to approximately HK$14,779,000 (31 December 2016: Nil) was transferred to inventories, as part of construction component of the "Cloud" which was sold to a third party customer subsequently.

17. GOODWILL

	HK$'000
COST	
At 1 January 2015	84,054
Addition arising from acquisition of subsidiaries (note 38)	71,746
At 31 December 2015	155,800
Addition arising from acquisition of a subsidiary (note 38)	9,199
Eliminated on disposal of a subsidiary (note 39)	(84,054)
At 31 December 2016	80,945
IMPAIRMENT	
At 1 January 2015	70,553
Impairment loss recognised in the year	13,501
At 31 December 2015	84,054
Impairment loss recognised in the year	39,382
Eliminated on disposal of a subsidiary (note 39)	(84,054)
At 31 December 2016	39,382
CARRYING VALUES	
At 31 December 2016	41,563
At 31 December 2015	71,746

Particulars regarding impairment testing on goodwill are disclosed in note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. OTHER INTANGIBLE ASSETS

	Capitalised development HK$'000	Software HK$'000	Technical knowhow and patents HK$'000	Total HK$'000
COST				
At 1 January 2015	–	–	–	–
Addition arising from acquisition of subsidiaries (note 38)	–	141	126,185	126,326
Additions	38,214	3,155	1,367	42,736
Effect of foreign currency exchange differences	–	(112)	(12,418)	(12,530)
At 31 December 2015	38,214	3,184	115,134	156,532
Addition arising from acquisition of a subsidiary (note 38)	–	–	6,946	6,946
Additions	69,685	1,877	509	72,071
Effect of foreign currency exchange differences	(51)	650	2,629	3,228
At 31 December 2016	107,848	5,711	125,218	238,777
ACCUMULATED AMORTISATION				
At 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
Amortisation expense	–	2,553	11,891	14,444
Effect of foreign currency exchange differences	–	607	137	744
At 31 December 2016	–	3,817	20,433	24,250
CARRYING VALUES				
At 31 December 2016	107,848	1,894	104,785	214,527
At 31 December 2015	38,214	2,527	106,729	147,470

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For the year ended 31 December 2016

18. OTHER INTANGIBLE ASSETS (Continued)

Intangible assets with definite useful lives are amortised on a straight line basis over the following periods:

Software	3–5 years
Technical knowhow and patents	6–10 years

Technical knowhow and patents represent patented technical knowledge and techniques acquired through acquisitions of subsidiaries to develop and commercialise jetpack products, solar powered aircrafts and unmanned 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 6 to 10 years from the date of registration.

Capitalised development represents development costs incurred will not be amortised until the related products under development are ready for use. It will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars regarding impairment testing on capitalised development are disclosed in note 19.

19. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS NOT READY FOR USE

For the purposes of impairment testing, goodwill and capitalised development not ready for use set out in notes 17 and 18 have been allocated to three individual cash generating units ("CGU"), being 3 groups of subsidiaries operating in development and commercialisation of 1) jetpack products business ("Jetpack CGU"), 2) solar powered aircrafts business ("Aircrafts CGU"), and 3) SkyX unmanned aircraft business (SkyX CGU").

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

	Goodwill		**Capitalised development**	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
Jetpack products business	**32,364**	32,364	**80,593**	38,214
Solar powered aircrafts business	**–**	39,382	**27,255**	–
SkyX unmanned aircrafts business	**9,199**	–	**–**	–
	41,563	71,746	**107,848**	38,214

During the year ended 31 December 2016, management of the Group recognised an impairment loss of HK$39,382,000 (2015: nil) in relation to goodwill arising on acquisition of Solar Ship Inc. since the value-in-use ("VIU") of Solar powered aircrafts business is lower than its carrying value and the delay in commercialisation of the key products under development.

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19. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS NOT READY FOR USE (Continued)

The impairment calculation used cash flow projections based on financial budgets approved by the directors of the company covering a 10-year period for Jetpack CGU, 5-year period for Aircrafts CGU and 6-year period SkyX CGU, with pre-tax discount rate of 22.18% (2015: 21.28%) for Jetpack CGU, 33.88% (2015: 30.91%) for Aircrafts CGU, and 29.41% for SkyX CGU. The cash flows beyond the forecast period were extrapolated using a steady growth rate of 2% for Jetpack CGU, 0% for Aircrafts CGU, and 3% for SkyX CGUs. 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 calculation related to the estimation of cash flows included perpetual growth rate and discount rate. Perpetual growth rate represents long term growth rate beyond forecast period, which is based on the management's expectation for the market development. The discount rate used is pre-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, Aircrafts CGU and SkyX 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 further impairment losses on goodwill and other intangible assets for Jetpack CGU and SkyX CGU while a further impairment on intangible assets will be required for Aircrafts CGU. However, as all 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 2016

19. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS NOT READY FOR USE (Continued)

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

	Favourable change	Unfavourable change
At 31 December 2016		
Perpetual growth rate (current model: 2%)	**+1%**	**–1%**
Increase/(decrease) in VIU (HK$'000)	**25,980**	**(23,635)**
Discount rate (current model: 22.18%)	**–10% to 19.96%**	**+ 10% to 24.40%**
Increase/(decrease) in VIU (HK$'000)	**139,276**	**(102,977)**
At 31 December 2015		
Perpetual growth rate (current model: 2%)	+1%	–1%
Increase/(decrease) in VIU (HK$'000)	20,748	(18,881)
Discount rate (current model: 21.28%)	–10% to 19.15%	+ 10% to 23.41%
Increase/(decrease) in VIU (HK$'000)	120,493	(92,093)

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

	Favourable change	Unfavourable change
At 31 December 2016		
Perpetual growth rate (current model: 0%)	**+1%**	**–1%**
Increase/(decrease) in VIU (HK$'000)	**3,258**	**(3,071)**
Discount rate (current model: 33.88%)	**–10% to 30.49%**	**+ 10% to 37.27%**
Increase/(decrease) in VIU (HK$'000)	**24,007**	**(18,704)**
At 31 December 2015		
Perpetual growth rate (current model: 2%)	+1%	–1%
Increase/(decrease) in VIU (HK$'000)	7,377	(6,883)
Discount rate (current model: 30.91%)	–10% to 27.82%	+ 10% to 34.00%
Increase/(decrease) in VIU (HK$'000)	59,216	(45,943)

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19. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS NOT READY FOR USE (Continued)

SkyX CGU – SkyX Limited ("SkyX")

	Favourable change	Unfavourable change
At 31 December 2016		
Perpetual growth rate (current model: 2%)	**+1%**	**–1%**
Increase/(decrease) in VIU (HK$'000)	**1,652**	**(1,536)**
Discount rate (current model: 29.41%)	**–10% to 26.47%**	**+ 10% to 32.35%**
Increase/(decrease) in VIU (HK$'000)	**13,155**	**(9,787)**

20. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1 January 2015	13,100
Gain on changes in fair value recognised in profit or loss (note 8)	600
At 31 December 2015	13,700
Gain on changes in fair value recognised in profit or loss (note 8)	100
At 31 December 2016	13,800

Notes:

Investment property represents the residential premise located in Hong Kong.

The fair value of the Group's Investment property at 31 December 2016 and 2015 has 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 property.

At 31 December 2016 and 2015, no investment property in the Group is pledged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. INVESTMENT PROPERTY (Continued)

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

	2016 **HK$'000**	2015 HK$'000
Hong Kong	**13,800**	13,700

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 2016 and 31 December 2015 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.

The investment property was subsequently disposed on 26 January 2017 with a gain of HK$50,000 through disposal of a subsidiary.

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$14,823 per square foot as at 31 December 2016 (31 December 2015: HK$14,715 per square foot)	A slight increase in the price per square foot will increase significantly the fair value

During the year ended 31 December 2016 and 2015, there were no transfers between level 1 and level 2, or transfers into or out of level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

21. INVESTMENTS IN ASSOCIATES

	2016	2015
	HK$'000	HK$'000
Cost of investment in an associate	**33,343**	11,634
Impairment of an associate upon initial recognition (note 8)	**–**	(6,690)
	33,343	4,944
Share of post-acquisition loss and other comprehensive expense	**(177)**	(654)
	33,166	4,290

Details of the Group's associates 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**
			2016	2015	**2016**	2015	
SkyX Limited (note a)	BVI	Canada	**60.2%**	42.5%	**60.2%**	42.5%	Development and commercialisation of SkyX aircrafts
Agent VI (note b)	Israel	Israel	**26.81%**	–	**26.81%**	–	Development of video analytics solutions

Notes:

(a) On 21 September 2015, the Company and 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 a cash consideration amounted to USD1,500,000 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 USD3,500,000. 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 held by the Original Shareholder at an agreed exercise price 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 2016 and 2015 with reference to valuation report prepared by independent external valuer. Furthermore, the fair value of the Buyout Option is insignificant as the exercise price will be based on the SkyX valuation at the date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

21. INVESTMENTS IN ASSOCIATES (Continued)

Notes: (Continued)

(a) (Continued)

As at 31 December 2015, the Company held 738,916 preferred shares of SkyX, which are convertible into 738,916 ordinary shares of SkyX, subject to anti-dilution adjustments. The Company could hold 42.5% of the ordinary share capital of SkyX when all the 738,916 preferred shares were converted based on the number of ordinary shares in issue as at 31 December 2015.

During the year ended 31 December 2015, the Group was able to exercise significant influence over SkyX in view of its investment in currently convertible preferred shares, and the Group could 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.

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.

On 9 September 2016, pursuant to the PSP Agreement, the Company acquired an additional 775,194 preferred shares of SkyX for cash consideration amounting to USD2,000,000 as certain SkyX condition were fulfilled. As at 31 December 2016, the Company held 1,514,110 preferred shares of SkyX, representing 60.20% of the issued shares. As the Company is entitled to over 50% of the voting right to direct the relevant activities of SkyX for variable return, the directors of the Company consider the Group has control over SkyX on 9 September 2016 and it becomes a subsidiary of the Company. Details for such acquisition is set out in note 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

21. INVESTMENTS IN ASSOCIATES (Continued)

Notes: (Continued)

(a) (Continued)

	HK$'000
SKYX	
Cost of investment in an associate	11,634
Impairment of an associate upon initial recognition	(6,690)
Share of loss and other comprehensive expense	(654)
At 31 December 2015	4,290
Share of loss and other comprehensive expense	(2,681)
Deemed disposal of investment in an associate (note 38)	(1,609)
At 31 December 2016	–

	HK$'000
Gain on deemed disposal of investment in an associate:	
Fair value of previously held interest	14,790
Less: Carrying amount of investment in associate on disposal date	(1,609)
	13,181

(b) In September 2016, the Company and Agent Video Intelligence Ltd. ("Agent VI") entered into a preferred share purchase agreement ("Agent PSP Agreement"), pursuant to which the Company agreed to acquire 12,215,909 preferred shares of Agent VI for consideration amounted to USD4,300,000. In addition, the Company shall have the right to purchase additional preferred shares which is limited to 35% of preferred shares purchased at the time of exercise at USD0.35 per share (the "Warrants").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

21. INVESTMENTS IN ASSOCIATES (Continued)

Notes: (Continued)

(b) (Continued)

The Company currently holds 12,215,909 preferred shares of Agent VI which are currently convertible into 12,215,909 ordinary shares of Agent VI, subject to anti-dilution adjustments. The Company will hold 26.81% of the ordinary share capital of Agent VI when all the 12,215,909 preferred shares are converted based on the number of ordinary and preferred shares in issue as at 31 December 2016. Upon exercise of the Warrants, the Company's shareholding in Agent VI will be approximately 36.2%, based on the number of ordinary and preferred shares in issue as at 31 December 2016.

The Group is able to exercise significant influence over Agent VI in view of its investment in currently convertible preferred shares, and it can appoint one out of six directors of Agent VI pursuant to the Articles of Association of Agent VI. Furthermore, in terms of the Articles of Association of Agent VI, 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.

	HK$'000
Agent VI	
Cost of investment in an associate	33,343
Share of loss and other comprehensive expense	(177)
At 31 December 2016	33,166

22. AVAILABLE-FOR-SALE INVESTMENTS

	2016 **HK$'000**	2015 HK$'000
Unlisted investments:		
– equity securities	**29,040**	–

In September 2016, the Company and Beyond Verbal Communication Ltd. ("Beyond Verbal") entered into a framework agreement ("Beyond Framework Agreement"), pursuant to which Beyond Verbal agreed to issue the Company a convertible loan amounted to USD3,000,000 (the "Beyond Convertible Loan") which has been converted into 60,779 preferred A shares and 2,508 preferred A-1 shares during the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

As at 31 December 2016, the Company holds 60,779 preferred A shares of Beyond Verbal which are currently convertible into 60,779 ordinary shares of Beyond Verbal, representing 19.9% of the number of ordinary and preferred A shares in issue as at 31 December 2016. The Company also holds 2,508 preferred A-1 shares of Beyond Verbal without voting right. In accordance with Beyond Verbal's Articles of Association, the Company's maximum holdings of voting shares of Beyond Verbal's issued share capital is up to 19.9%. The directors of the Company consider the Company has no significant influence over Beyond Verbal as it has only less than 20% voting right and no right to appoint any director of Beyond Verbal.

The investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair values cannot be measured reliably.

23. DERIVATIVES FINANCIAL ASSETS

	Derivatives Swap Right HK$'000 (note a)	Derivatives right of convertible securities HK$'000 (note a and b)	Derivatives right of shares of Longsheng HK$'000 (note c)	Total HK$'000
At 1 January 2015	–	–	–	–
Recognition on acquisition of subsidiaries on 23 February 2015 (note 38)	20,350	31,613	–	51,963
Change in fair value	(234)	(429)	–	(663)
Carrying value at 31 December 2015	20,116	31,184	–	51,300
Recognition of subscription right	–	–	1,021,151	1,021,151
Change in fair value	9,954	7,436	(229,913)	(212,523)
Derecognised upon exercise of underlying options	(22,396)	(38,620)	–	(61,016)
Carrying value at 31 December 2016	7,674	–	791,238	798,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. DERIVATIVES FINANCIAL ASSETS (Continued)

Notes:

(a) During the year ended 31 December 2015, the Group entered into an investment agreement with MACL as set out in note 38(b). The agreement contains derivatives that are measured at FVTPL. During the year ended 31 December 2016, gain from changes in fair value of swap right and subscription right of convertible securities amounted to HK$9,954,000 and HK$7,436,000 respectively (2015: loss of HK$234,000 and HK$429,000 respectively).

(b) On 29 February 2016, the Company exercised its right to subscribe for the entire convertible securities in MACL for AUD23,020,000 (equivalent to HK$129,988,000) and immediately fully converted them into new ordinary shares of MACL. In addition, on the same date, the Company exercised 90% of the share swap to sell 45.9% of the equity interests in HKCo (as defined in note 38) to MACL in return for the allotment of 89,445,000 MACL shares. Immediately after the subscription and conversion of the convertible securities in MACL and exercise of the share swap, the Group held in aggregate 52.01% of issued share capital of MACL. The Company shall have the right to exercise the remaining 10% of the share swap prior to 22 August 2017. Since both MACL and HKCo were accounted for as subsidiaries of the Group before these transactions, and they remain as subsidiaries of the Group after these transactions, these are treated as equity transactions which resulted in an adjustment between non-controlling interest and accumulated losses. The portion of derivative assets exercised was derecognised at their fair value on exercise date and charged against accumulated loss. There is no impact on the consolidated statement of profit or loss and other comprehensive income upon derecognition.

(c) On 25 March 2015, the Group entered into a subscription agreement with Zhejiang Longsheng Automotive Parts Stock Limited Corporation (浙江龍生汽車部件股份有限公司) ("Longsheng"), which listed on the Shenzhen Stock exchange, pursuant to which Longsheng conditionally agreed to issue, and the Group conditionally agreed to subscribe for 42,075,736 new shares of Longsheng at the consideration of RMB300 million (equivalent to approximately HK$375 million). On 11 Nov 2016, the Group obtained the approval from the China Securities Regulatory Commission for the subscription and all the conditions of the subscription agreement have been satisfied. The subscription right is a derivative that measured at FVTPL. During the year ended 31 December 2016, the Group recognised a gain of HK$1,021,151,000 on the initial recognition of the subscription right of such shares and a loss from change of fair value of HK$229,913,000. The subscription has been completed subsequent to the year end.

24. PREPAID LEASE PAYMENTS

	2016	2015
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Non-current assets	**83,581**	91,749
Current assets	**2,204**	2,357
	85,785	94,106

At 31 December 2016, 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 future technology business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. BANK BALANCES AND CASH/TIME DEPOSIT/PLEDGED DEPOSIT/ STRUCTURED BANK DEPOSIT

	2016 HK$'000	2015 HK$'000
Bank balances and cash (note a)	**870,558**	1,228,556
Time deposit (note b)	**252,005**	125,133
Pledged deposit (note c)	**–**	143,280
Structured bank deposit (note d)	**13,397**	–

(a) The bank balances carry interest rates ranging from 0.001% to 0.35% (2015: 0.001% to 4.76%) per annum.

(b) The time deposit at 31 December 2016 carries interest rate at 1.43% (2015: 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 represented a deposit pledged to a bank to secure a bank borrowing granted to the Group as set out in note 30. It carried fixed interest rate ranging 4.2% to 4.5% per annum. The pledged deposit was released during the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. BANK BALANCES AND CASH/TIME DEPOSIT/PLEDGED DEPOSIT/ STRUCTURED BANK DEPOSIT (Continued)

(d) The Group entered into a structured contract with a bank in PRC with a principal sum of RMB12,000,000 (equivalent to approximately HK$13,397,000). The investment is a principal-protected yield enhancement bank deposit and contains an embedded derivative, which represents the returns varying with the underlying investment portfolio of the structured bank deposit and comprises primarily of debt instrument products including bank bonds. The principal amount together with the investment return would be repaid to the Group anytime upon request, and therefore, the amount is classified as current assets. The structured bank deposit carried a minimum interest rate at zero per annum plus an additional interest rate of 2.95% per annum which was determined by reference to the returns of the underlying investments. The management considered the fair value of the embedded derivative in the structured bank deposit as of the same date was insignificant.

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

	2016 '000	Equivalent to HK$ '000	2015 '000	Equivalent to HK$ '000
RMB	**332,996**	**371,755**	601,286	717,935
USD	**66,234**	**513,279**	81,397	631,021
NZD	**17,324**	**93,267**	12,553	66,572
CAD	**7,881**	**45,501**	3,003	16,777

26. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	**22,339**	5,087
Work in progress	**–**	5,807
Finished goods	**126,971**	33,143
	149,310	44,037

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. TRADE AND OTHER RECEIVABLES

Before accepting any new customers, the Group will have a deep investigation to assess the potential customer's credit quality and defines credit limits by customers.

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

	2016	2015
	HK$'000	HK$'000
Trade receivables (note a)		
0–30 days	**6,810**	297,995
31–60 days	**–**	9,637
61–90 days	**–**	1,681
91–180 days	**–**	1,129
181–365 days	**221,047**	4
over 365 days	**99,137**	–
	326,994	310,446
Deposits and other receivables	**11,948**	11,994
Interest receivables	**4,049**	10,906
Prepayment for advertising	**5,582**	11,978
Prepayments for suppliers	**42,870**	12,737
Earnest monies paid (note b)	**126,354**	–
Prepaid consultancy fee (note c)	**5,141**	–
	522,938	358,061

The Group did not hold any collateral over these balances.

Notes:

a. As at 31 December 2016, amount includes trade receivables from sales of the "Cloud", a flying apparatus platform amounting to approximately RMB292,900,000 (equivalent to HK$326,994,000) of which RMB63,000,000 (equivalent to HK$70,333,000) was subsequently settled in March 2017.

b. It represents earnest monies paid for two investment projects, which are interest free and refundable. Subsequent to 31 December 2016, the entire amount was fully refunded.

c. It represents prepayment made to a consultancy company for providing investment opportunity. Subsequent to 31 December 2016, the entire amount was fully refunded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. TRADE AND OTHER RECEIVABLES (Continued)

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:

	2016 Equivalent to HK$'000	2015 Equivalent to HK$'000
USD	**–**	11,612

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

	2016 HK$'000	2015 HK$'000
Overdue by:		
0–30 days	**–**	276,761
31–60 days	**–**	1,962
61–90 days	**18,086**	82
91–180 days	**41,530**	1
181–365 days	**37,958**	–
	97,574	278,806

Included in the trade receivables overdue are balances arising from the sales of two "Clouds" amounting to approximately RMB87,401,000 (equivalent to HK$97,574,000) (2015: 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.

The remaining trade receivables as at 31 December 2015 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. LOAN RECEIVABLES

	2016 HK$'000	2015 HK$'000
Long term portion (note a)	**21,711**	–
Short term portion (note b)	**273,989**	–
	295,700	–

Notes:

(a) The amount is an advance to a potential investee. It is pledged with the patents of the borrower, interest bearing at 8% per annum and repayable within 24 months from the first draw date. According to the terms of the loan agreement, the Group has the right to convert the loan into the potential investee's shares at agreed conversion price if the potential investee fails to reach certain milestones stated in the loan agreement. As the loan contains an embedded conversion option, the embedded conversion option is accounted for as a separate derivative as it meets the definition of a derivative, the risks and characteristics are not closely related to those of the loan and the loan is not measured at fair value through profit or loss. The directors of the Company consider that the fair value of this derivative is immaterial as the milestones are expected to be fulfilled.

Both Dr. Liu R (the controlling shareholder and executive director of the Group) and Huang Weizi (spouse of Dr. Liu R) are directors of the investee. In additions, Photon Future Limited, a company controlled by Dr. Liu R, holds approximately 20% shares of the investee, and agrees to provide financial support to the investee to settle this loan.

(b) As at 31 December 2016, the balance included:

1. A loan to a shareholder of a potential investee in the United Kingdom amounting to HK$9,550,000. The amount is secured by the equity interests of a private company held by such shareholder, interest bearing at 8% per annum and repayable within one year from the agreement date. The acquisition of the investee has been completed on 16 January 2017 as stated in note 47. The loan was fully repaid by the borrower on 22 March 2017.

2. The remaining loan receivables amounting to HK$264,439,000, which are unsecured, interest bearing at 3% per annum and repayable on demand. Subsequent to year end, the entire amounts have been repaid by the borrowers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. 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.

	2016	2015
	HK$'000	HK$'000
Trade payables		
0–90 days	**45,558**	16,480
Over 90 days	**–**	3,832
	45,558	20,312
Deferred revenue (note a)	**73,682**	–
Deposit received	**67**	536
Accrued salary	**33,650**	15,090
Other payables and accruals	**35,209**	45,677
Other tax payables (note b)	**73,783**	38,441
Interest payables	**602**	–
Receipt in advance (note c)	**98,969**	–
	361,520	120,056

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) The balances represent (i) a conditional government grant amounting to RMB60,000,000 (equivalent to HK$66,984,000) received from a city government in China to develop and promote the commercialisation of innovative technology. The government grant has been recognised as deferred income as the government's assessment attaching to the government grant has not yet commenced; and (ii) as set out in note 7(a), the Group deferred 20% of the grant amounting RMB6,000,000 (equivalent to HK$6,698,400) from the committee as the government's assessment was not completed. Since the government grant is for research and development purpose, it is classified as operating cash flows in the consolidated statement of cash flows.

(b) Other tax payables mainly include value-added tax payables amounting to HK$66,217,000 (2015: HK$32,619,000) arising from the sale of clouds.

(c) It represents partial payments from customers for sales of Clouds and other technology products. The amount has been recognised as receipt in advance as the goods shipped are subject to installation and the installation is a significant part of the contract which has not yet been completed by the Group at the year end date.

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For the year ended 31 December 2016

30. BANK BORROWINGS

	2016 HK$'000	2015 HK$'000
Secured bank borrowings		
– repayable within one year	**264,147**	–
– repayable more than two years but not more than five years	**–**	142,397
	264,147	142,397

Note: As at 31 December 2016, there are 2 bank borrowings carried interest at one-month Hong Kong Interbank Offer Rate ("HIBOR") plus a margin of 1.6% and three-month London Interbank Offer Rate ("LIBOR") plus a margin of 1.05%, with interest ranging from 1.93% to 2.10% per annum. (2015: three-month HIBOR plus a margin of 2.8% which was approximately 3.19%). Balance as at 31 December 2016 is guaranteed by a company controlled by Dr. Liu R, while the balance as at 31 December 2015 was secured by pledged deposits (note 25).

31. 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 2017 after the extension 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. DEFERRED TAXATION

The following is the major deferred tax liability recognised and movements thereon during the current and prior periods:

	Accelerated tax depreciation HK$'000	Fair Value change of right of shares of Longsheng HK$'000	Total HK$'000
At 1 April 2015	(119)	–	(119)
Credit to profit or loss	52	–	52
At 31 December 2015	(67)	–	(67)
Derecognised upon disposal of a subsidiary	21	–	21
Credit (charge) to profit or loss	13	(118,686)	(118,673)
At 31 December 2016	(33)	(118,686)	(118,719)

At the end of the reporting period, the Group had unused tax losses of approximately HK$123,118,000 (31 December 2015: approximately HK$55,251,000) available for offset against future profits. No deferred tax asset has been recognised for such losses as at 31 December 2016 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$162,540,000 (31 December 2015: HK$83,385,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. SHARE CAPITAL

	Number of shares	Equivalent to
		HK$'000
Ordinary shares		
Authorised:		
Ordinary shares of HK$0.01 each at 1 January 2015 and 31 December 2015 and 31 December 2016	7,316,666,668	73,167
Issued and fully paid:		
At 1 January 2015	3,406,067,793	34,061
Issue of ordinary shares upon conversion of preferred shares (note b)	2,307,666,666	23,076
At 31 December 2015	5,713,734,459	57,137
Issue of ordinary shares upon conversion of preferred shares (note b)	375,666,666	3,757
At 31 December 2016	6,089,401,125	60,894

	Number of shares	Equivalent to
		HK$'000
Preferred shares		
Authorised:		
Preferred shares of HK$0.01 each at 1 January 2015 and 31 December 2015 and 31 December 2016	2,683,333,332	26,833
Issued:		
At 1 January 2015	2,683,333,332	10,733
Settlement of remaining share subscription price (note a)	–	16,100
Conversion of preferred share (note b)	(2,307,666,666)	(23,076)
At 31 December 2015	375,666,666	3,757
Conversion of preferred share (note b)	(375,666,666)	(3,757)
Issued and fully paid of HK$0.01 each at 31 December 2016	–	–

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33. 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 2015 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. During the year ended 31 December 2016, the Group received notices from the relevant holders of the fully paid preferred shares to convert the 375,666,666 fully paid preferred shares into ordinary shares (2015: 2,307,666,666). The amount transferred from preferred share capital to ordinary share capital was approximately HK$3,757,000 (2015: 23,076,000), and at the same time, HK$26,281,000 (2015: HK$161,538,000) was transferred from the share premium-preferred share account to the share premium-ordinary share account).

34. 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$46,000 for the year ended 31 December 2016 (2015: HK$112,000) 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$14,393,000 for the year ended 31 December 2016 (2015: HK$7,781,000) represent retirement benefit contributions payable to this scheme by the Group.

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35. 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	2014 Share Options		2014 Repriced Options		2015 Share Options options	
		Vesting period	Exercisable period	Vesting period	Exercisable period	Vesting period	Exercisable period
Tranche 1	33%	26 August 2014 to 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 to 30 September 2016	30 September 2016 to 29 September 2019
Tranche 2	33%	26 August 2014 to 26 August 2016	26 August 2016 to 25 August 2019	30 September 2015 to 30 September 2016	30 September 2016 to 31 December 2017	30 September 2015 to 30 September 2017	30 September 2017 to 29 September 2019
Tranche 3	34%	26 August 2014 to 26 August 2017	26 August 2017 to 25 August 2019	30 September 2015 to 30 September 2017	30 September 2017 to 31 December 2017	30 September 2015 to 30 September 2018	30 September 2018 to 29 September 2019
Recognised as expenses for the year ended 31 December 2016 (HK$)			N/A		40,078,424		23,048,032
Recognised as expenses for the year ended 31 December 2015 (HK$)			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

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35. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

	2015 Share Options	**2014 Repriced Options**
Share price at the date of grant/modification (HK$)	1.59	1.59
Exercise price (HK$)	1.604	1.604
Expected volatility	56.28%	56.59%
Risk-free interest rate (%)	0.78%	0.77%
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 2016**	**Granted during year**	**Forfeited during year**	**Outstanding at 31 December 2016**
2014 Share Options/2014 repriced options	67,537,000	–	–	67,537,000
2015 Share Options	70,000,000	–	–	70,000,000
Total	137,537,000	–	–	137,537,000

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

The Group recognised an expense of approximately HK$63,126,000 for the year ended 31 December 2016 (2015: HK$59,792,000) in relation to share options granted by the Company, and an expense of approximately HK$356,000 in relation to share options granted by its subsidiaries (2015: HK$4,346,000). The directors consider that the financial impact of the share-based payments granted by the subsidiaries is not material to the Group.

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36. 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 and convertible debenture, 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.

37. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Loans and receivables at amortised cost (including cash and cash equivalents)	**1,650,091**	1,817,164
Derivatives financial assets	**798,912**	51,300
	2,449,003	1,868,464
Financial liabilities		
Liabilities at amortised cost	**459,533**	267,719

b. Financial risk management objectives and policies

The Group's major financial instruments include bank balances and cash, time deposit, pledged deposit, structured bank deposit, trade and other receivables, derivative financial assets, 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

During the year ended 31 December 2015, certain subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 6.8% 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

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 ("USD") 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.

Foreign currency sensitivity

The following details the Group's sensitivity to a 5% (31 December 2015: 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 end for the reasonably possible change in foreign currency rates.

For the year ended 31 December 2016, 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 2015, 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**	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
Sensitivity rate	**5%**	5%	**5%**	5%
Profit or loss	**10,876**	24,057	**46**	29,639

No sensitivity analysis is performed for the potential fluctuation of USD 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. 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 31 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 30 for details of these borrowings) and bank balances (see note 25 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 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 HIBOR and LIBOR arising from the Group's 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 2016.

For the year ended 31 December 2016, 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$2,641,000.

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 loss for the year would increase/decrease by approximately HK$1,424,000.

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 2016

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2016, 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 100% (2015: 92%) of the total trade debtors were due from the Group's four largest customers. Trade debtors with overdue balances as at 31 December 2016 have governmental background and despite the lack of track record, management consider that these customers have satisfactory credit quality. For other trade debtors, management consider the balances are recoverable in view of the business relationship and continuous repayment record.

Other than concentration of credit risk on liquid funds which are deposited with several reputable banks and 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 2016

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity risk tables (Continued)

At 31 December 2016

	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	–	188,802	–	–	188,802	188,802
Convertible bond	12%	7,374	–	–	7,374	6,584
Bank borrowings	2.15%	269,611	–	–	269,611	264,147
		465,787	–		465,787	459,533

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. FINANCIAL INSTRUMENTS (Continued)

c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair value of various financial assets and financial liabilities.

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. The board of directors of the Company has set up a valuation team, which is headed up by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation team's findings to the board of directors of the Company every quarter to explain the cause of fluctuations in the fair value.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

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 valuers of these financial assets are determined (in particular, the valuation technique(s) and inputs used)

Fair value hierarchy as at 31/12/2016

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets				
Derivative financial assets	**–**	**791,238**	**7,674**	**798,912**

Fair value hierarchy as at 31/12/2015

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
Derivative financial assets	–	–	51,300	51,300

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. FINANCIAL INSTRUMENTS (Continued)

c. Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial instruments	Fair value as at 31 December 2016 HK$'000	Fair value as at 31 December 2015 HK$'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input(s) 31 December 2016	Significant unobservable input(s) 31 December 2015
1) Subscription right of convertible securities classified as derivative financial assets in the statement of financial position	–	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	N/A	Volatility: 44.63% Risk fee rate: 2.19% Discount rate: 17.95% Perpetual growth rate: 2% Exercise price: AUD0.4/share
2) Swap right classified as derivative financial assets in the statement of financial position	7,674	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: 37.94% Perpetual growth rate: 2% Discount rate of MACL: 22.18% Discount rate of HKCo: 23% Correlation co-efficient: 0.9	Volatility: 44.63% Perpetual growth rate: 2% Discount rate of MACL: 21.28% Discount rate of HKCo: 22.74% Correlation co-efficient: 0.9
3) Subscription right of Shares of Longsheng classified as derivative financial assets in the statement of financial position	791,238	N/A	Level 2	Black-Scholes Formula is adopted and the key inputs are the share price of Longsheng, the volatilities of the assets and the risk free rate	Volatility: 65% Share price of Longsheng: 37.46	N/A

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

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38. 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 2016	2015	Date of acquisition	Proportion of shares acquired	Net consideration transferred HK$'000
2016									
SkyX (note a)	Development and commercialisation of SkyX aircrafts	Canada	Ordinary shares	USD6,000,000	**60.2%**	42.5%	9 September 2016	60.2%	33,304
									33,304
2015									
MACL (note b)	Development and commercialisation of jetpack products	New Zealand	Ordinary shares	NZD39,304,595	**52.01%**	22.68%	23 February 2015	22.83%	83,237
Solar Ship (note c)	Development and commercialisation of solar powered aircrafts	Canada	Common shares	CAD19,343,078	**32.58%**	32.58%	29 May 2015	32.58%	81,884
									165,121

Subsidiaries acquired

Notes:

(a) As set out on note 21, on 9 September 2016, SkyX fulfilled part of the SkyX Conditions and the Company acquired an additional 775,194 preferred shares for cash consideration amounting to USD2,000,000 (equivalent to HK$15,514,000). The Company currently holds 1,514,110 preferred shares of SkyX which are currently convertible into 1,514,110 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 60.2% of the ordinary share capital of SkyX when all the 1,514,110 preferred shares are converted based on the number of ordinary shares in issue as at 31 December 2016. Upon the Company's purchase and conversion of the additional 493,440 preferred shares of SkyX upon satisfaction of the remaining 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 2016.

As the acquisition of the additional preferred shares gives the Company current ability to direct the relevant activities of the respective investees, the directors of the Company consider the Group has control over SkyX on 9 September 2016. As a result, the Group applied the acquisition method in accounting for the acquisition of additional preferred shares of SkyX.

The acquisition allows the Group to benefit from the unmanned aircraft technology of SkyX for the development of the future technology business.

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38. ACQUISITION OF SUBSIDIARIES (Continued)

Subsidiaries acquired (Continued)

Notes: (Continued)

(a) (Continued)

Fair value of assets acquired and liabilities assumed at the date of acquisition (determined on a provisional basis)

	HK$'000
Plant and equipment	1,955
Technical knowhow and patents for development and commercialisation of SkyX	6,946
Other receivables	1,367
Bank balances and cash	16,281
Other payables	(80)
	26,469

Goodwill arising from acquisition (determined on a provisional basis)

	Total HK$'000
Cash consideration transferred	15,514
Fair value of previously held interest	14,790
Add: Non-controlling interests	4,521
Add: Share-based payment reserves	843
Less: Fair value of identifiable net assets acquired	(26,469)
Goodwill arising from acquisition	9,199

* As at the acquisition date, SkyX had a share option scheme in terms of which share options over SkyX'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 (39.8%) in SkyX recognised at the acquisition date was measured with reference to the fair value of the non-controlling interests and amounted to HK$4,521,000. The fair value was estimated by applying market approach and the key inputs used in determining the fair value include recent transaction price of the shares.

The goodwill arising on this acquisition is not expected to be deductible for tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Subsidiaries acquired (Continued)

Notes: (Continued)

(a) (Continued)

Net cash inflow on acquisition of subsidiaries

	Year ended 31 December 2016 HK$'000
Consideration paid in cash	**(15,514)**
Add: bank balances and cash acquired	**16,281**
	767

SkyX contributed no revenue and incurred a loss of HK$4,828,000 for the period from the date of acquisition to 31 December 2016.

If the acquisition has been completed on 1 January 2016, total group's profits for the year ended 31 December 2016 would have been HK$540,738,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

(b) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Subsidiaries acquired (Continued)

Notes: (Continued)

(b) (Continued)

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.

During the year ended 31 December 2016, the Company acquired and converted the Convertible Securities in full and exercised 90% of the Swap Right. Details are set out in note 23.

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 2016

38. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Subsidiaries acquired (Continued)

Notes: (Continued)

(b) (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Subsidiaries acquired (Continued)

Notes: (Continued)

(c) 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 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 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. During the year ended 31 December 2016, it is agreed between the Company and Solar Ship that the latest date for exercising the Option shall be extended from 15 October 2016 to 15 January 2017. As at 31 December 2016, the Company still had the right to exercise the Option. Accordingly, Solar Ship was still a subsidiary of the Company. Subsequent to the year end, such Option was expired and not exercised and the management of the Company expects that the investment will be derecognised as subsidiary on the date of option expired. The financial impact is under assessment by the management of the Company.

The acquisition allows the Group to benefit from Solar Ship's aviation and flying technology for the development of future technology business.

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 2016

38. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Subsidiaries acquired (Continued)

Notes: (Continued)

(c) (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 year from the date of acquisition to 31 December 2016.

Financial instruments	Fair value as at Acquisition date HK$'000	Fair value hierarchy	Valuation techniques and key inputs	Key input(s) Acquisition date
Option	24,201	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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. DISPOSAL OF A SUBSIDIARY

As referred to in note 11, on 26 October 2016, the Group discontinued its paper business at the time of disposal of its subsidiary, Sky Will. The net assets of Sky Will at the date of disposal were as follows:

Consideration received:

	HK$'000
Consideration received	12,000

Analysis of assets and liabilities over which control was lost:

	26.10.2016 HK$'000
Plant and equipment	22,945
Inventories	7,862
Trade and other receivables	21,288
Bank balance and cash	3,689
Trade and other payables	(44,888)
Deferred tax liabilities	(21)
Net assets disposed of	10,875

Gain on disposal of a subsidiary:

	26.10.2016 HK$'000
Consideration received	12,000
Net assets disposed of	(10,875)
Cumulative exchange differences	1,088
Gain on disposal included in loss for the year from discontinued operation	2,213

Net Cash inflow on disposal of a subsidiary:

	26.10.2016 HK$'000
Cash consideration	12,000
Less: bank balances and cash disposed of	(3,689)
	8,311

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was approximately HK$360,000 (2015: HK$356,000). The Group's investment property is held for rental purposes. 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:

	2016	2015
	HK$'000	HK$'000
Within one year	**90**	360
In the second to fifth year inclusive	**–**	90
	90	450

The Group as lessee

	2016	2015
	HK$'000	HK$'000
Minimum lease payments paid under operating leases for premises	**9,701**	6,607

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:

	2016	2015
	HK$'000	HK$'000
Within one year	**7,600**	2,272
In the second to fifth years inclusive	**6,573**	2,056
	14,173	4,328

As at 31 December 2016, operating leases related to factory and offices with lease terms of 1 to 3 years (2015: 1 to 2 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 2016

41. CAPITAL COMMITMENTS

	2016 **HK$'000**	2015 HK$'000
Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of the acquisition of:		
Plant and equipment	**253,107**	13,108

42. 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:

	2016 **HK$'000**	2015 HK$'000
Plant and equipment under finance lease	–	4,038
Pledged deposit (note 25)	–	143,280
	–	147,318

43. RELATED PARTY TRANSACTIONS

(i) Saved as disclosed in note 28 to the consolidated financial statements, there is no other related party balance.

(ii) The Group entered into the following transactions with its related companies:

Name of related companies	**Nature**	Notes	**2016** **HK$'000**	2015 HK$'000
New Spring Label	Sales of packaging products	(a)	–	15,448
New Spring Label	Management fee income	(b)	–	300
Beautiking Investments Limited	Rental expenses	(c)	–	180
New Spring Group Co. Ltd	Rental expenses	(d)	–	216
REORIENT	Advisory expenses	(e)	–	8,036
REF Financial Press Limited	Financial printing services expenses	(f)	–	9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

43. 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, of which Mr. Ng Man Chan ("Mr. Ng"), a director of Sky Will, and Ms. Li Mi Lai ("Ms. Li"), a close family member of Mr. Ng 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 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.

(f) 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:

	2016 **HK$'000**	2015 HK$'000
Short-term benefits	**9,385**	8,687
Post-employment benefits	**–**	3
Share-based payments	**42,904**	44,459
	52,289	53,149

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(a) Details of the Company's principal subsidiaries as at 31 December 2016 and 31 December 2015 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 31.12.2016	31.12.2015	Principal activities
Direct subsidiaries						
Sky Will Printing & Packaging (Holdings) Limited	BVI	Hong Kong	USD100	**–**	100%	Investment holding
MACL	New Zealand	New Zealand	NZD39,304,595	**52.01%**	22.68%	Development and commercialisation of the Martin Jetpacks
Solar Ship	Canada	Canada	CAD19,343,078	**32.58%**	32.58%	Development of a transport Platform
SkyX	BVI	Canada	USD6,000,000	**60.20%**	42.5%	Development and commercialisation of SkyX aircrafts
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%	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	Hong Kong	HK$10,000	**–**	100%	Trading of packaging products
*Shenzhen Kuang Chi Space Technology Limited * 深圳光啟空間技術有限公司	PRC	PRC	USD5,000,000	**100%**	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%	Investment holding and products trading of packaging
*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 2016

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(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
				31.12.2016	31.12.2015	
*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%**	80%	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 2016

44. 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 ended 31 December		Balance of non-controlling interest as at 31 December	
					2016	2015	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
MACL	Development and commercialisation of jetpack products	New Zealand	Ordinary shares	NZD39,304,595	**47.83%**	77.32%	**(47,175)**	(22,556)	**192,324**	156,770
Solar Ship	Development and commercialisation of solar powered aircrafts	Canada	Common shares	CAD19,343,078	**67.42%**	67.42%	**(18,625)**	(12,392)	**63,362**	86,228
SkyX	Development and commercialisation of SkyX aircrafts	BVI/Canada	Preferred shares	USD6,000,000	**39.80%**	–	**(1,971)**	–	**3,221**	–
Other insignificant subsidiary that has non-controlling interest							**–**	(48)	**9,869**	9,869
							(67,771)	(34,996)	**268,776**	252,867

MACL

	2016 HK$'000	2015 HK$'000
Non-current assets	**155,582**	153,423
Current assets	**110,004**	70,091
Current liabilities	**(43,311)**	(20,365)
Equity attributable to shareholders of the Company	**(29,951)**	(46,379)
Non-controlling interests	**(192,324)**	(156,770)
Change in shareholding upon exercise of underlying options Equity attributable to shareholders of the Company	**(82,392)**	–
Non-controlling interests	**82,392**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

MACL (Continued)

	2016 HK$'000	2015 HK$'000
Revenue	–	–
Other income	118,558	5,674
Expenses	(97,240)	(34,846)
Profit (loss) for the period	21,318	(29,172)
Other comprehensive expense		
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translating foreign operations	(2,548)	(740)
Total comprehensive income (expense) for the period	18,770	(29,912)
Profit (loss) for the period attributable to:		
Shareholders of the Company	68,493	(6,616)
Non-controlling interests	(47,175)	(22,556)
	21,318	(29,172)
Total comprehensive income (expense) attributable to:		
Shareholders of the Company	65,964	(6,784)
Non-controlling interests	(47,194)	(23,128)
	18,770	(29,912)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Solar Ship

	2016	2015
	HK$'000	HK$'000
Non-current assets	**97,240**	88,160
Current assets	**69,950**	47,634
Non-current liabilities	**(6,584)**	(5,569)
Current liabilities	**(66,625)**	(2,328)
Equity attributable to shareholders of the Company	**(30,619)**	(41,669)
Non-controlling interests	**(63,362)**	(86,228)

	2016	2015
	HK$'000	HK$'000
Other income	**2,984**	3,351
Expenses	**(30,609)**	(21,731)
Loss for the period	**(27,625)**	(18,380)
Other comprehensive expense		
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translating foreign operations	**(3,956)**	(351)
Total comprehensive expense for the period	**(31,581)**	(18,731)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Solar Ship (Continued)

	2016 **HK$'000**	2015 HK$'000
Loss for the period attributable to:		
Shareholders of the Company	**(9,000)**	(5,988)
Non-controlling interests	**(18,625)**	(12,392)
	(27,625)	(183,80)
Total comprehensive expense attributable to:		
Shareholders of the Company	**(11,050)**	(6,103)
Non-controlling interests	**(22,866)**	(12,628)
	(33,916)	(18,731)

SkyX

	31 December 2016 **HK$'000**
Non-current assets	**6,590**
Current assets	**31,037**
Current liabilities	**(19,743)**
Equity attributable to shareholders of the Company	**14,662**
Non-controlling interests	**3,221**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

SkyX (Continued)

	From 29 May 2016 to 31 December 2016 HK$'000
Revenue	–
Other income	6
Expenses	(4,945)
Loss for the period	(4,939)
Other comprehensive expense	
Items that may be reclassified subsequently to profit and loss:	
Exchange differences on translating foreign operations	(447)
Total comprehensive expense for the period	(5,386)
Loss for the period attributable to:	
Shareholders of the Company	(2,967)
Non-controlling interests	(1,971)
	(4,938)
Total comprehensive expense attributable to:	
Shareholders of the Company	(3,204)
Non-controlling interests	(2,180)
	(5,384)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

45. 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:

	2016 HK$'000	2015 HK$'000
ASSETS AND LIABILITIES		
NON-CURRENT ASSETS		
Amounts due from subsidiaries	**769,598**	1,031,816
Investment in subsidiaries	**1,125,101**	936,418
Investment in an associate	**25,998**	4,290
Available-for-sale investment	**23,270**	–
	1,943,967	1,972,524
CURRENT ASSETS		
Other receivables	**40,778**	601
Loan receivables	**161,261**	–
Bank balances and cash	**362,634**	259,133
	564,673	259,734
CURRENT LIABILITY		
Other payables	**1,602**	3,056
Amount due to a subsidiary	**1,455**	–
Bank borrowing	**264,147**	–
	267,204	3,056
NET CURRENT ASSETS	**297,469**	256,678
TOTAL ASSET LESS CURRENT LIABILITIES	**2,241,436**	2,229,202
NON-CURRENT LIABILITIES		
Bank borrowing	**–**	142,397
NET ASSET	**2,241,436**	2,086,805
CAPITAL AND RESERVES		
Share capital		
– Ordinary shares (note 33)	**60,894**	57,137
Share capital		
– Preferred shares (note 33)	**–**	3,757
Reserves	**2,180,542**	2,025,911
TOTAL EQUITY	**2,241,436**	2,086,805

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Movement in reserves

	Share premium	Share premium preferred share	Contributed surplus	Accumulated losses	Shares-based payment reserve	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
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 33a)	–	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
Loss and total comprehensive income for the year	–	–	–	91,505	–	91,505
Exercise of convention right of preferred share	26,281	(26,281)	–	–	–	–
Deemed contribution to a subsidiary	–	–	–	–	63,126	63,126
At 31 December 2016	2,096,146	–	103,941	(160,601)	141,056	2,180,542

46. COMPARATIVE FIGURES

Certain comparative figures for the consolidated statement of financial position have been reclassified due to discontinued operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

47. EVENTS AFTER THE REPORTING PERIOD

(a) With reference to the Investment Agreement on 16 January 2017, a wholly owned subsidiary of the Company has subscribed new ordinary shares of Gilo Industries Group Limited ("Gilo"), representing approximately 19.14% of the enlarged issued capital of Gilo, at a consideration of GBP9,467,456 (equivalent to approximately HK$89,372,785). Upon achieving certain product targets, obtaining international certifications for its products and meeting income provisions stipulated in the Investment Agreement by Gilo, the second tranche of investment will be made in the form of subscription of new ordinary shares of Gilo at a consideration of GBP8,260,355 (equivalent to approximately HK$77,977,751) and acquisition of existing ordinary shares of Gilo at a consideration of GBP1,751,480 (equivalent to approximately HK$16,533,971). Upon the completion of the second tranche of investment, the Group will hold approximately 33.74% of the enlarged issued share capital of Gilo. The third tranche of investment will be made in the form of subscription of new shares of Gilo at a consideration of GBP5,041,420 (equivalent to approximately HK$47,591,005). Upon completion of the Subscription and the Acquisition, the Group will hold approximately 39.06% of the enlarged issued share capital of Gilo.

Gilo is principally engaged in the research and development and manufacturing for aviation and aerospace technology and solutions with a focus on the research and development and manufacturing for innovative engine technologies. Gilo is also a supplier of MACL.

The financial impact of such acquisition is under assessment by the management of the Company.

(b) As disclosed in note 38(c) to the consolidated financial statements, subsequent to the year end, options to acquire additional 116,279 common shares of Solar Ship was expired and not exercised and the management of the Company expects that the investment will be derecognised as subsidiary on the date of option expired. The financial impact is under assessment by the management of the Company.

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	Year ended 31 March		Period ended 31 December	Year ended 31 December	
	2013	2014	2014	2015	**2016**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	81,178	113,433	79,464	279,162	**290,492**
Profit (loss) before tax	3,480	(37,332)	(152,674)	42,982	**737,464**
Income tax expense	(1,248)	(576)	(861)	(14,761)	**(140,430)**
Profit (loss) for the year	2,232	(37,908)	(153,535)	28,221	**597,034**
Loss for the year from discontinued operation	–	–	–	(33,205)	**(490)**
Profit (loss) for the year	2,232	(37,908)	(153,535)	(4,984)	**596,544**
Attributable to:					
Owners of the Company	2,232	(37,908)	(153,535)	30,012	**664,315**
Non-controlling interest	–	–	–	(34,996)	**(67,771)**
	2,232	(37,908)	(153,535)	(4,984)	**596,544**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March		As at 31 December		
	2013	2014	2014	2015	**2016**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	268,371	189,715	1,936,751	2,457,909	**3,504,108**
Total liabilities	(87,149)	(22,550)	(218,510)	(282,911)	**(774,397)**
	181,222	167,165	1,718,241	2,174,998	**2,729,711**
Share capital	12,079	14,495	34,061	57,137	**60,894**
Preferred share	–	–	10,733	3,757	**–**
Reserves	169,143	152,670	1,668,445	1,861,237	**2,400,041**
Equity attributable to owners of the Company	181,222	167,165	1,713,239	1,922,131	**2,460,935**
Non-controlling interest	–	–	5,002	252,867	**268,776**
Total equity	181,222	167,165	1,718,241	2,174,998	**2,729,711**