2017
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. Dorian Barak *(appointed on 1 February 2017)*

Non-executive Directors

Mr. Ko Chun Shun, Johnson *(Re-designated from Executive Director on 16 May 2017)*
Mr. Song Dawei *(appointed on 1 February 2017)*

Independent Non-executive Directors

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

AUDIT COMMITTEE

Ms. Cao Xinyi *(Chairman)*
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 *(resigned on 1 March 2018)*
Mr. Cheng Chi Chung Kevin *(appointed on 1 March 2018)*

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

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Hamilton HM 11
Bermuda

PRINCIPAL BANKERS

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

STOCK CODE

439

CHAIRMAN'S STATEMENT

2017 marked a crucial year of KuangChi Science Limited (the "Company") for our further in-depth market exploration and focus on in-depth vertical development of mainstream businesses. We have opened the end-to-end application path of in-depth space technology, achieved breakthrough in product technology, successfully completed commercial testing for end users and accelerated commercialization. With the research and development, manufacturing and promotion of applications of air station platform of various heights, we have explored the possibility of building loading platforms at various heights, laid out the vertical professional field of smart city, emergency and rescue, security and monitoring and smart transport, gradually constructed in-depth space-sharing platform, opened the path between platforms and applications, and conducted in-depth vertical market exploration, in an effort to achieved closed-loop values in 2018. In the area of artificial intelligence technology, we also achieved revolutionary and forward-looking breakthrough. Based on years of practical experience of the Company and its subsidiaries in advanced technology and artificial intelligence, we finally formed a social management system based on comprehensive and dynamic big data bank which is accurate to the individual level.

In 2017, we saw the early emergence of the in-depth integration of our technology, diversification of business development and construction of our business partner network. We are not complacent about empty dreams and praises, and adhere to in-depth integration and innovation of multiple types of technology, as well as system development of practical applications. We devote efforts in serving the police and civilians, seeking the joint development of individuals, enterprises and society, leading our times with technology and enlightening the future with the power of innovation.

Dr. Liu Ruopeng
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW AND PROSPECTS

The Company and its subsidiaries are 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").

Management is confident in the prospect of the market and the future growth and development of the Company. For the twelve months ended 31 December 2017 (the "Year"), profit attributable to owners of the Company was HK$66,051,000. The Company and its subsidiaries recorded a turnover of HK$306,192,000, representing an increase of 5.40% over last year. Gross profit was HK$129,641,000 and gross profit margin was 42.34%. Net loss was HK$66,612,000, decreased from net profit of HK$596,544,000 in last year. During the Year, the Company and its subsidiaries also generated other gains, net of HK$576,308,000, which was mainly attributable to the gain on investments of the Company and its subsidiaries, amounting HK$616,404,000. Basic earnings per share decreased to 1.08 HK cents.

The Future Technology Business – in-depth development of vertical sectors

Given the enormous challenges in urban development around the world and the exponential growth of urbanization, cities are required to build the mature "Smart City" through efficient adoption and implementation of smart solutions, so as to improve urban operational efficiency. In the "Report of the Development of New Smart City in 2017", the assessment of China's new smart city is disclosed for the first time, the average score of 220 cities is 58.03, more than half of these cities are only at early stage. As the fundamental technical support for the construction of smart cities, the AI industry received great support and attention from the PRC government. In July 2017, China's State Council issued the "Development Plan for the New Generation of AI", which formulated and planned the country's AI development strategy. By guiding social capital to support the growth of the AI industry, it is expected to bring the core AI industry to a size of RMB150 billion in 2020.

In view of the global and national policy trends, the Company and its subsidiaries put their focus on the Future Technology Business. They are committed to building future smart cities by developing and integrating different future technologies, including "future space" technology and "future AI" technology, which allow them to provide a comprehensive range of innovative products, services and solutions. Through these efforts, they can enhance service efficiency, cater to residents' needs, upgrade living quality and, in particular, solve various problems that are faced by human beings. Specifically, their initiatives can be categorized into three aspects, namely safety, sustainability and space utilisation. On safety, they focus on emergency response of safety and prevention and disaster prevention and warning. On sustainability, they emphasise on environmental protection. On space utilisation, they provide communication and connecting services.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of the "future space" technology business, during the Year, the subsidiary of the Company entered into contracts in relation to the "Cloud" project with new cities, and actively worked towards the milestone in project development. Meanwhile, the successful test flight of the near-space flying apparatus "Traveller III" marked the first case of sending live animals into near-space with flying apparatus, demonstrating the feasibility of various core technology for near space tourism. During the Year, the Company achieved the initial results in the field of low-flying aerostats and launched two low-flying aircrafts, namely "KC60" and "H1", which had applications in air emergence rescue and long-time air communication monitoring. In addition, the Company further expanded the pipeline inspection and application of energy facilities sector, and prompted the development of unmanned aerial vehicle for the pipeline inspection of energy facilities and the commercialization process of automatic remote solution of unmanned aerial vehicle, the "SkyX" project. It speeded up exploring the commercial market and expanding the development and application in the PRC future flight experience and the emergency and fire safety market by prompting the individual jetpack "KuangChi Martin Jetpack". In the meantime, in order to achieve the in-depth exploration of vertical industries and sectors, the Company and its subsidiaries strategically invested in Gilo Industries Group ("Gilo"), a company engaged in the research and development and manufacturing of aviation and aerospace engines and aviation products, for the joint research and development and enhancement of the future space technology and accelerating the process of product commercialisation. During the Year, the Company and its subsidiaries also entered into the strategic cooperation framework agreements with the People's Governments of Xiong'an New District and Baoding City, in relation to the proposed establishment of Kuangchi Institute of Advanced Technology for New Engines and development of the innovation and industrial base for new engines, which aimed to gradually establish the industrialization capacity of new engine.

In terms of the "future AI" technology business, the Company and its subsidiaries spared no effort in establishing a presence in the AI industry and supported the development of new generation of smart public security and smart public transportation. During the Year, they invested in the AI industry and actively introduced strategic partners from different fields, through which they developed vertical sectors in a comprehensive manner and explored blue ocean market. To push forward the in-depth cooperation in AI, smart public security and smart public transportation, the Company and its subsidiaries entered into the strategic cooperation agreement with Shenzhen Bus Group Company Limited ("Shenzhen Bus Group"), Shenzhen Zhongjing Huayu Group Co., Ltd. ("Zhongjing Group"), Hangzhou Future Sci-Tech City and China United Network Communications Corporation Limited ("China Unicom") in relation to the AI industry and other innovative industries during the Year. On the other hand, the Company and its subsidiaries also signed the strategic cooperation agreements with the governments of Xiong'an New District and Fuyang City, assisting them in developing smart transport and smart public security. During the Year, 深圳光啟智雲信息有限公司, an indirectly wholly-owned subsidiary of the Company, participated in the construction of "Smart Qianhai" in Qianhai, Shenzhen, and made initial progress in the Qianhai public ultra-high-speed WIFI network project. Meanwhile, the Company and its subsidiaries conducted the independent research and development of Intelligent Auto-Tracking system which was used in the aspects of smart safety and prevention as well as smart public safety and provided the pre-caution, support and service of preventing crowd and trample calamity for various public safety authorities. Moreover, the Company and its subsidiaries continued the research on voice recognition and video analytics identification along with other products and solutions in the pharmaceutical industry and smart cities. They assisted Agent Video Intelligence ("Agent VI"), an Israeli video analytics solution provider, and Beyond Verbal Communications Ltd. ("Beyond Verbal"), a health and emotions analytics solution provider, in their development in the PRC market as well as the establishment of smart cities.

During the year, revenue from the Future Technology Business was approximately HK$306,162,000, representing an increase of 5.53% over last year. Of the revenue, the Company and its subsidiaries' fastest commercialised "Cloud" products accounted for HK$257,537,000. In respect of products of the Future Technology Business, the Company and its subsidiaries incurred selling and distribution expenses of HK$54,938,000, research and development expenses of HK$255,271,000 and administrative expenses of HK$195,899,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Secured contracts of the "Cloud" project with new cities, extending the applications in anti-terrorism and security

As a flying application platform for smart cities, the "Cloud" not only has heavy loading capacity and extensive coverage, but also combines communication, optical remote sensing, surveillance and monitoring through the Internet of Things, big data collection and analysis and other functions, all of which can lead to construct the integrated space-earth network platform for smart cities.

In September 2017, the "Cloud" was used in Xinjiang to provide aerial security and defence service applications to solve the communication difficulties in mountainous regions and areas at higher altitude, failure of communication with the command centre and communication breakdown, while expanding the applications of the "Cloud" in anti-terrorism and security. Management is of the view that the "Cloud" project will have a huge demand and promising prospects in the public security market.

During the Year, the Company and its subsidiaries entered into the sales and operating agreement in relation to the "Cloud" project with a new city. The test flight was completed and deployed in December 2017. New application areas of the "Cloud" project in the new city included geological hazard monitoring and warning system, meteorological data collection system, monitoring of unauthorised construction and monitoring of straw incineration. Besides, the "Cloud" project in the new city involved active communication with the administrative units and departments for exploring and cooperating in city security management, anti-terrorism and riot control, major dam monitoring, comprehensive forest monitoring and large event management.

During the Year, the existing "Cloud" projects continued to operate steadily, providing a wide range of applications and services for different cities, and carried out in-depth cooperation and follow-ups with local authorities, initiating emergency data analysis, traffic survey, urban traffic monitoring and monitoring of water levels in reservoirs and other applications. This provided big-data for city administrators on city surveillance, ecological monitoring and emergency communication.

"Traveller III" completed the test flight, marking the first case of sending live animals into the near-space

During the Year, "Traveller III" completed the flight test in Xinjiang, China in October 2017, sending a live animal into the near space at a targeted altitude of 21 km. Experiments in relation to near-space environmental control and life support, space-earth communication, and space information collection were carried out and the device landed on the designated spot after 4 hours of flights. The life support pod was retrieved and the vital signs of the animal inside were good.

The successful flight test of "Traveller III" marked the first case of sending live animals into near-space with flying apparatus, demonstrated the feasibility of various core technology in near space tourism and signified that China's technology in near space flying has reached a new height. In addition, the "Traveller" series has other applications in communication, optical remote sensing, the Internet of Things, big data collection and analysis, which provide the technology exploration platform for smart city, remote communication and astrophysics.

MANAGEMENT DISCUSSION AND ANALYSIS

Expand the layout of the air emergency rescue industry and launch the "KC-60" air emergency rescue platform product

KC-60 is an unmanned aerial vehicle (UAV) system for air emergency rescue. It is a special aviation equipment specially developed to deal with the safety incidents and natural disasters such as the fire-fighting within high-rise and super high-rise buildings in urban area, forest fire-fighting, water rescue and wild rescue. Its products and technical advantages include heavy load, long life, withstanding of strong weather such as wind and rain and strong environmental adaptability.

During the year, "KC-60" products were prompted to various domestic urban public security bureaus, fire stations and safety supervision bureaus and bridged with the relevant bureaus and the emergency rescue and pipeline inspection plans were proposed. It is planned to cooperate with a number of urban fire stations in 2018 for commercial expansion.

Enriched the product offering in the low-flying aircraft series, while "H1" completed research and development and began product testing

The "H1" tethered unmanned aircraft is an aerial surveillance and relay platform system with heavy vehicle loading capacity, tethering equipment and multiple blades. It has long flight endurance, high loading capacity and excellent mobility. Its applications mainly include city security monitoring, traffic monitoring, border patrol, emergency communication, communication relay, fire-fighting support, live match broadcasting, resorts and forest monitoring.

During the Year, the research and development results of "H1" have undergone testing. The main applications of "H1" included public security, fire-fighting and emergency communication and successfully participated in the anti-terrorism drill project organised by the Ministry of Public Security, as well as conducted the flight demonstration held for security enterprises. For the purpose of smart public security and smart security, the "Cloud" can carry out security monitoring of the whole city and closely monitor the streets with the more flexible product "H1" to achieve seamless coverage of the city.

"SkyX" entered into the commercial phase, and successfully delivered natural gas pipeline monitoring services to Mexico's energy company

The "SkyX" project focuses on the development of unmanned aircraft for energy pipeline inspection and the automation remote solutions for unmanned aircraft. Its research and development cover unmanned aircraft "SkyOne", multifunctional helipad "xStation", as well as the aircraft management system "SkyOS". The unmanned aircraft "SkyOne" is capable of vertical take-off and high-speed cruising. Given its high efficiency, it costs little energy. Meanwhile, the ground relay station and self-manufactured charging facility of the multifunctional helipad "xStation" allow the unmanned aircraft to operate for long hours and distances so as to cover large areas by relaying. The unmanned aircraft management system "SkyOne", which collects and analyses data and information from monitoring, provides a reliable aerial platform for oil pipelines patrol, powerline patrol, border patrol, island patrol and other applications.

During the Year, the unmanned aircraft "SkyOne" has undergone successful product technology and functionality upgrade, and reached the industrialisation and delivery stage. The multifunctional helipad "xStation" has finished set-up and entered the commercialisation stage following the completion of application trials with the unmanned aircraft "SkyOne" in Canada in June 2017. In November 2017, "SkyX" project provided natural gas pipeline monitoring service to an energy company in Mexico and successfully completed the unattended data collection flight over 100 kilometers of natural gas pipelines. By viewing high-resolution images, it identified over 200 potential anomalous nodes along pipelines. During the Year, the application of "SkyOne" was explored with various domestic petrochemical enterprises and power grid companies, which further studied and promoted its commercialisation in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Manned and unmanned versions of "KuangChi Martin Jetpack" completed the test flight

During the Year, the P14 unmanned version and the Series 1 manned version of "KuangChi Martin Jetpack" completed the first free flight. The Series 1 manned version of the jetpack also completed the test on flight performance and control function, and underwent battery life enhancement. Considering the potential of different markets, the Company and its subsidiaries will start to explore the opportunity and development in the China market.

Enhanced future space technology through strategic investment in Gilo, a company engaged in the research and development and manufacture of aviation and aerospace technology solutions, as well as the establishment of institute and industrial base of advanced technology for new engines

During the Year, in order to expand and expedite the commercialisation and industrialisation of the space technology and products, the subsidiary of the Company cooperated with Gilo, a UK company specialising in the research and development and manufacture of aviation and aerospace technology and solutions. The cooperation aimed at enhancing the flight performance of the future space technology product line and accelerating its commercialisation through jointly developing future space technology and service solutions and putting into practice the advanced engine technology and manufacturing applications in the product line of the Company and its subsidiaries. Gilo is principally engaged in the research and development and manufacturing of aviation and aerospace technology and solutions, with a focus on the research and development and manufacturing of innovative engine technologies. Its engine products are used in unmanned aircraft, power umbrella, paraglider, flying car and rotation-powered bicycles, providing ground-breaking solutions for civil, commercial and recreational aviation and aerospace applications. The subsidiary of the Company plans to cooperate with Gilo in the technology, product and innovation aspects in relation to future space technology, with the view of jointly developing and expediting the commercialisation and industrialisation of space technology and products.

In September 2017, the Company and its subsidiaries entered into the strategic cooperation framework agreement with the government of Xiong'an New District. Pursuant to the agreement, the parties would draw on the technical capability of the Company's innovation team to establish Kuangchi Institute of Advanced Technology for New Engines in line with the industry direction and development plan of Xiong'an New District. They would also promote the industrialisation of their globally-leading technological achievements, facilitate technological innovation and economic growth of the local region, and achieve mutual development.

In September 2017, the Company and its subsidiaries entered into the strategic cooperation framework agreement with the government of Baoding City to construct an innovative industry base for new engines (the "Engine Industry Base"), and entered into the strategic cooperation framework agreement with the government of Xiong'an new district to establish Kuangchi Institute of Advanced Technology for New Engines, which would mainly manufacture lightweight/ultra-lightweight flying apparatus, drone power units; and providing power units for range extender of new energy automobiles, portable power generators.

Established a presence in the AI industry, introduced strategic partners from various sectors, developed vertical sectors comprehensively and prompted "Smart City"

The Company and its subsidiaries explore the demand and application in different sectors, pursue the expansion and diversification of the future city business, extend the application of AI in various industries and sectors, actively introduce strategic partnership, including Shenzhen Bus Group, Zhongjing Group, Hangzhou Future Sci-Tech City (杭州未來科技城) and China Unicom, so as to offer solution and value for comprehensive city application from different aspects.

MANAGEMENT DISCUSSION AND ANALYSIS

In the meantime, the Company and its subsidiaries strengthened the cooperation with various new "Smart City" pilot sites. With a well-established presence in Dongguan, Zunyi, Xinjiang, Chengdu and Shenzhen, they actively sought to promote "Smart City" projects in Xiong'an New District, Fuyang City and other cities. During the Year, the Company and its subsidiaries entered into the cooperation agreement with Xiong'an New District and Fuyang City. Focusing on the areas of smart security and smart transport, it drove the intensive reform of smart cities, expanded and conducted the AI-related projects.

During the year, the Company and its subsidiaries independently developed intelligent tracking systems to develop the functions such as people counting, regional population statistics, target tracking and face recognition, which are used in large-scale activities and monitoring of crowd flow in densely populated streets as well as statistics, as well as identification of key high-risk groups and track. During the year, the system started business cooperation with the public security bureau of various provinces and municipalities, and conducted further cooperation and negotiations, so as to form relevant real combat application. At the same time, the system provided traffic statistics and anti-crowding stampede service to Longgang Public Security Bureau of Shenzhen, and delivered services for a number of concerts and NBA security services. During the holiday period in the second half of 2017, the system completed two laboratories and provided systematic services to densely populated areas such as Chongqing Jiefangbei and Shanghai Bund, covering target tracking and anti-crowding trample.

In August 2017, the Company entered into the strategic cooperation framework agreement with Shenzhen Bus Group, which would prompt the cooperation in public transport safety and integrated intelligent operation platform, promote the in-depth integration between the public transport market and new technologies such as AI, the Internet of Things, cloud platform and big data analysis, expedite the realisation of smart transportation and push forward the construction of smart city, and work together in the incubation and nurturing of the value-added market in relation to the road-based public transport industry.

In September 2017, Shenzhen Kuangchi Space Technology Limited, a wholly-owned subsidiary of the Company, entered into the strategic cooperation framework agreement with Zhongjing Group, in order to conduct cooperation in the areas of smart security and smart public security involved the transformation and application of new aviation equipment technology and safety and rescue technology, exploration of market demand for police gear and fire equipment.

In September 2017, Shenzhen KuangChi Space Technology Limited, a wholly-owned subsidiary of the Company, entered into the strategic cooperation agreement with Hangzhou Future Sci-Tech City (杭州未來科技城) regarding the AI industry and other innovation industries. The cooperation included the construction of integrated regional headquarters in Hangzhou Future Sci-Tech City, which would comprise the Hangzhou KuangChi Future Technology Institute, industrial companies, industry incubation centers and upstream and downstream industries. Meanwhile, both parties would set up the comprehensive pilot project in the field of AI and establish the AI innovation and industry centers, so as to achieve in-depth vertical exploration.

In December 2017, the Company entered into the business cooperation framework agreement with China Unicom to jointly pursue and develop projects relating to smart city. The parties would integrate AI technology, communication service and intelligent operation, and cooperate in the area of smart transport, as well as also develop solutions for public security and commence cooperation with a focus on the "policing technology sharing platform".

Management believes that the independent research and development and introduction of multi-industry strategic partners, deep vertical development and deployment of artificial intelligence industry will lead to deep changes of "smart cities".

MANAGEMENT DISCUSSION AND ANALYSIS

Manpower development

With regard to staff development, the Company strengthened the talent nurturing system and designed new employee development system and mechanism to enhance staff quality. The Company and its subsidiaries will adopt the core strategy to continue to attract and nurture high-calibre employees, while introducing talents on space technology and AI at a global level. During the Year, the Company and its subsidiaries brought in 357 experts on high and new technology from around the world and 35% of them were with master's degree or above. This has provided a strong talent foundation that in turn strengthened their core competitiveness.

The Property Investment Business

The Company and its subsidiaries hold the properties for investment purpose with a view that it can establish recurring rental income, while capture any possible future capital appreciation. In order to realise its investment in the non-core business and focus all the resources on its Future Technology Businesses, the Company disposed of its indirect subsidiary and the investment property at a consideration of HK$9,900,000 in January 2017.

Other results

The Company granted replacement and new share options to directors and employees of the Company and its subsidiaries in 2015, and the relevant share-based payment expenses for the year was approximately HK$33,188,000 (2016: HK$63,126,000).

Net exchange gain of approximately HK$8,842,000 was recognised during the year (2016: net exchange loss of HK$4,203,000) and it was mainly due to the appreciation of RMB to HKD in 2017.

CAPITAL STRUCTURE

On 30 September 2015, the Board of the Company announced that the Company will cancel a total of 67,537,000 share options granted to certain Directors and employees of the Company and its subsidiaries on 26 August 2014 and the Company will conditionally grant 67,537,000 new share options as replacement options to the relevant grantees. On the same day, the Board of the Company further announced that the Company will conditionally grant 70,000,000 new share options to certain Directors and employees of the Company and its subsidiaries under the share option scheme adopted by the Company on 31 July 2012 (the "Share Option Scheme").

On 11 January 2017, certain Directors and employees exercised certain options under the Share Option Scheme to allot 20,546,377 ordinary shares of the Company. On 22 December 2017, certain Directors and employees exercised certain options under the Share Option Scheme to allot 46,981,358 ordinary shares of the Company. As at 31 December 2017, the balance of issued ordinary shares is 6,156,928,860.

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 years ended 31 December 2016 and 2015, approximately HK$217,728,000 and HK$625,117,000 were utilised according to the intended use as specified in the annual report of year 2014. As at 31 December 2016, approximately HK$782,743,000 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 2017	Utilised during the year	Unutilised proceeds as at 31 December 2017
	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	739,304	(125,189)	614,115
Research and development for products and expenses for the Future Technology Business	43,439	(43,439)	–
General working capital	–	–	–
Global merger and acquisition of In-depth space services industry and products	–	–	–
	782,743	(168,628)	614,115

During the year, approximately HK$168,628,000 was used as specified in the annual report of year 2014 for purchase of additional plant and equipment for the Future Technology Business.

The unused proceeds up to 31 December 2017 were approximately HK$614,115,000. Management will use the remaining proceeds as intended including for the use for merger and acquisition as discussed above.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the total shareholders' funds of the Company and its subsidiaries amounted to approximately HK$2,534,049,000 (31 December 2016: HK$2,729,711,000), the total assets of approximately HK$3,333,301,000 (31 December 2016: HK$3,504,108,000) and the total liabilities of approximately HK$799,252,000 (31 December 2016: HK$774,397,000).

As at 31 December 2017, the Company and its subsidiaries had bank balances and cash of approximately HK$787,477,000 (31 December 2016: HK$870,558,000), time deposits of approximately HK$180,120,000 (31 December 2016: HK$252,005,000) and the Company and its subsidiaries had no structured bank deposits (31 December 2016: HK$13,397,000). The gearing ratio as of 31 December 2017, defined as the percentage of the total interest bearing debt, including bank and other borrowings of approximately HK$396,193,000 (31 December 2016: HK$264,147,000 and convertible debenture of approximately HK$6,584,000), to net asset value, was approximately 15.63% (31 December 2016: 9.92%).

The Company and its subsidiaries' business operations and investments are in PRC, Hong Kong, New Zealand and Canada. Cash and bank balances as at 31 December 2017 mainly included HK$133,764,000, HK$346,434,000, HK$21,716,000, HK$421,382,000 and HK$35,448,000 denominated in HK$, RMB, NZD, USD and CAD respectively. Other than described above, most of the assets, liabilities and transactions of the Company and its subsidiaries are primarily denominated in HK$ and RMB. The Company and its subsidiaries have not entered into any instruments on the foreign exchange exposure. The Company and its subsidiaries will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

Investment in Gilo Industries Group Limited ("Gilo")

On 16 January 2017, Advance Summit Limited ("Advance Summit"), a wholly-owned subsidiary of the Company, has entered into an investment agreement with Gilo.

Pursuant to the Investment Agreement, Advance Summit will (i) subscribe for new capital of Gilo; and (ii) acquire certain existing ordinary shares of Gilo. The Investment comprised of three tranches. Upon obtaining all approvals required under the relevant foreign exchange laws and regulations of the PRC, the first tranche of investment will be made in the form of subscription of new ordinary shares of 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 with 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 completion of the second tranche of investment, Advance Summit 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).

Completion of the subscription is subject to the fulfilment or waiver of the conditions set out in the Investment Agreement. Gilo will use its best endeavours to ensure that all conditions are satisfied as soon as reasonably practicable and in any event on or before 31 December 2019.

Upon completion of the Subscription and the Acquisition, Advance Summit will hold approximately 39.06% of the enlarged issued share capital of Gilo.

Investment in SkyX

On 21 September 2015, the Company and SkyX Limited ("SkyX") entered into a preferred shares purchase agreement (the "PSP Agreement"), pursuant to which the Company agreed to acquire 738,916 preferred share of SkyX for consideration amounted to US$1,500,000 and upon SkyX fulfilling certain conditions (the "SkyX Conditions"), the Company will further acquire an additional 1,268,634 preferred shares of SkyX for an additional cash consideration amounting to US$3,500,000. In addition, immediately following the satisfaction of all SkyX conditions 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.

Pursuant to the PSP Agreement, the Company acquired additional preferred shares of SkyX on 9 September 2016 of 775,194 shares, 12 May 2017 of 168,350 shares and 21 June 2017 of 168,350 shares for cash considerations amounting to USD2,000,000, USD500,000 and USD500,000 respectively, as certain SkyX conditions were fulfilled.

As at 31 December 2017, the Company held 1,850,810 preferred shares of SkyX which are currently convertible into 1,850,810 ordinary shares of SkyX, subject to anti-dilution adjustments. All preferred shares of SkyX acquired or 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 64.9% of the ordinary share capital of SkyX when all the 1,850,810 preferred shares are converted based on the number of ordinary shares in issue as at 31 December 2017. Upon the Company's purchase and conversion of the additional 148,368 preferred shares of SkyX upon satisfaction of SkyX Conditions, the Company's shareholding in SkyX will be approximately 66.7%, based on the number of ordinary shares in issue as at 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Saved as disclosed above, the Company and its subsidiaries did not have any other significant investment and there are no other material acquisition or disposal of subsidiaries and associated company during the year.

KC Subscription in Kuang-Chi Technologies Co., Ltd. ("KCT", formerly known as "Zhejiang Longsheng Auto Parts Co., Ltd. ("Longsheng") (浙江龍生汽車部件股份有限公司))

On 25 March 2015, the Company and its subsidiaries entered into a subscription agreement with KCT, which listed on the Shenzhen Stock Exchange, pursuant to which KCT conditionally agreed to issue, and the Company and its subsidiaries conditionally agreed to subscribe for 42,075,736 new shares of KCT at the consideration of RMB300 million (equivalent to approximately HK$345,000,000). On 11 November 2016, the Company and its subsidiaries obtained the approval from the China Securities Regulatory Commission for the subscription and certain conditions of the subscription agreement have been satisfied. The subscription right is a derivative that measured at fair value through profit or loss. During the year ended 31 December 2016, the Company and its subsidiaries recognised a gain of HK$1,021,151,000 on the initial recognition of the subscription right of such shares and a loss from changes in fair value of HK$229,913,000. The subscription has been completed and the new shares was listed on the Shenzhen Stock Exchange on 13 February 2017 and was recognised as available-for-sale financial assets on the same day. As at 13 February 2017, the fair value of the derivatives right of shares of KCT amounted to approximately HK$1,419,691,000 and hence the Company and its subsidiaries recognised a fair value gain of HK$616,404,000 upon the conversion of derivative in the consolidated statement of profit or loss. Subsequent to the completion of subscription on 13 February 2017, the Company and its subsidiaries hold approximately 3.32% of the ordinary shares of KCT issued. The directors of the Company consider the Company has no significant influence over KCT and no right to appoint any director, and hence classified the investment in KCT as AFS investment at HK$1,419,691,000 which is the fair value of KCT as at 13 February 2017. The fair value loss of HK$427,108,000 from 13 February 2017 to 31 December 2017 was recognised in other comprehensive loss.

EVENT AFTER THE REPORTING YEAR

Reference is made to the announcement of the Company dated 28 February 2018 in relation to the request for removal from the official list of the Australian Securities Exchange (the "ASX") by a non-wholly-owned subsidiary voluntarily. The Company was informed by the board of directors (the "MACL Board") of Martin Aircraft Company Limited ("MACL"), a non-wholly-owned subsidiary of the Company with its shares listed on the ASX under stock code MJP, and according to the announcement of MACL dated 28 February 2018 published on the ASX website (the "MACL Announcement"), that following the receipt of in-principle approval from the ASX, the MACL Board has issued a formal request to the ASX on 28 February 2018 for MACL to be removed from the official list of the ASX, subject to the satisfaction of standard conditions (including MACL's shareholder approval having been obtained) (the "Proposed Privatisation"). The Company considers that the Proposed Privatisation will not have any impact on MACL's Jetpack product development and business.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGES ON THE COMPANY AND ITS SUBSIDIARIES' ASSETS

As at 31 December 2017, certain assets of the Company and its subsidiaries were pledged to secured banking facilities granted to the Company and its subsidiaries as follows:

	31 December 2017 HK$'000	31 December 2016 HK$'000
Available-for-sale financial assets – Shares in KCT	**1,420,811**	–
Prepaid land lease payments	**89,900**	–
	1,510,711	–

CONTINGENT LIABILITIES

As at 31 December 2017, the Company and its subsidiaries had no significant contingent liabilities (31 December 2016: Nil).

CAPITAL COMMITMENT

	2017 HK$'000	2016 HK$'000
Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities:		
Property, plant and equipment	**209,483**	253,107
Financial commitments on an investment (Note 43 to the consolidated financial statements)	**140,400**	–

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Company and its subsidiaries had approximately 837 employees. The Company and its subsidiaries provide competitive remuneration packages to employees with the share option scheme and the restricted shares award scheme. The Company and its subsidiaries also provide attractive discretionary bonus payable to those with outstanding performance and contribution to the Company and its subsidiaries.

SHARE OPTION SCHEMES AND RESTRICTED SHARE AWARDS

For more details, please refer to page 43 to 46.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

KuangChi Science Limited (the "Company"), together with its subsidiaries, are pleased to present this Environmental, Social and Governance Report (the "Report") to provide an overview of the Company and its subsidiaries' management on significant issues affecting the operation, and the performance of the Company and its subsidiaries in terms of environmental and social aspects. This Report is prepared by the Company and its subsidiaries with the professional assistance of 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 "Stock Exchange") (the "Listing Rules") – "Environmental, Social and Governance Reporting Guide" and has complied with "comply or explain" provision in the Listing Rules.

This Report summarises the performance of the Company and its subsidiaries in respect of corporate social responsibility, covering its operating activities which are considered as material by the Company and its subsidiaries – research, development and manufacture of innovative products for future technology business in the People's Republic of China ("PRC") and New Zealand ("NZ"). This Report shall be published both in Chinese and English on the website of Stock Exchange. 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 2017 to 31 December 2017.

Contact Information

The Company and its subsidiaries welcome your feedback on this Report for our sustainability initiatives. Please contact us calling 2292 3900.

INTRODUCTION

The Company and its subsidiaries are global high-tech innovation companies focusing on expanding human's living space. Their nickname "Alien Tech" implies that the Company and its subsidiaries will bring a better life to human beings with future technologies.

The Company and its subsidiaries' 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 Labour Practices, Operating Practice and Community Involvement. The Company and its subsidiaries have established a system to oversee compliance issues that related to environmental, health and safety and quality management. The Company and its subsidiaries have 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 Company and its subsidiaries have recognised 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 Company and its subsidiaries to understand risks and opportunities. The Company and its subsidiaries have identified key stakeholders that are important to our business and established various channels for communication.

Stakeholders	Issues of concern	Engagement channels
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 report 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 – Cooperation – Fair competition	– Industry conference – Site visit
Public and Community	– 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 Company and its subsidiaries' commitment to environmental protection encompasses all our business activities, from minimising emissions to conserving energy and resources and much more. The Company and its subsidiaries' "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 Company and its subsidiaries have developed procedures to monitor the emission of air pollutants, wastes, wastewater and noise. The Company and its subsidiaries are 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 2017, no concluded cases regarding emissions brought against the Company and its subsidiaries or their employees were noted.

Air Pollutants Emission

Air pollutants emission control is vital to both environmental protection and health of employees. Emission from the Company and its subsidiaries' 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.

During the year, the Company and its subsidiaries responded to the request by the Ministry of Environmental Protection of the People's Republic of China to reduce volatile organic compounds emission by undertaking an engineering project.

Air pollutants emission of the Company and its subsidiaries mainly comes from vehicles. The air pollutants emission during the reporting period is as follows:

Air Pollutants	**Unit**	**PRC**	**NZ**	**Total**
Nitrogen oxides (NO_x)	kg	3.25	38.05	**41.30**
Sulfur dioxide (SO_2)	kg	1.71	0.30	**2.01**
Particular matter (PM)	kg	1.15	2.08	**3.23**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Greenhouse Gas ("GHG") Emission

Climate change is gradually concerned by the public as it does affect our daily life. GHG is considered as one of the major contributor to the climate change. The Company and its subsidiaries manage the carbon footprint by minimising the energy and water consumptions in its operation as these activities cause significant emission of GHG. The Company and its subsidiaries have adopted energy saving policy (as mentioned in the section "Use of Resources") in order to reduce the carbon footprint. The GHG emission during the reporting period is as follows:

GHG Emission[1]	**Unit**	**PRC**	**NZ**	**Total**
Scope 1[2]	tonnes of CO_2-e	53.96	15.71	**69.67**
Scope 2[3]	tonnes of CO_2-e	2,414.45	8.97	**2,423.42**
Total GHG emission	tonnes of CO_2-e	2,468.41	24.68	**2,493.09**
GHG intensity	tonnes of CO_2-e/m^2	0.15	0.0075	**–**

Hazardous and Non-hazardous Wastes

The Company and its subsidiaries' "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 waste and industrial waste are collected, stored, labelled and weighted before being delivered to qualified recycling companies. There are some measures implemented in the office to reduce the waste generated, for example, paper is printed on both sides to reduce paper waste. The Company and its subsidiaries introduce paperless solutions in the operation to reduce the paper usage. Recycling bins are placed in the office to recycle paper and other materials.

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 procedures of the corresponding Material Safety Data Sheet (MSDS). The Company and its subsidiaries have commissioned a qualified contractor to properly handle the hazardous waste produced.

The wastes generated by the Company and its subsidiaries during the reporting period are as follows:

Wastes disposal	**Unit**	**PRC**	**NZ**	**Total**
Hazardous waste	tonnes	5.55	–	**5.55**
Hazardous waste intensity	tonnes/m^2	0.0048	–	**0.0048**
Non-hazardous waste	tonnes	0.96[4]	N/A[5]	**0.96**
Non-hazardous waste intensity	tonnes/m^2	0.0049	N/A[5]	**0.0049**

1 The calculation of the greenhouse gas emission is based on the "Corporate Accounting and Reporting Standard" from greenhouse gas protocol.
2 Scope 1: Direct emission from sources that are owned or controlled by the Company and its subsidiaries.
3 Scope 2: Indirect emissions from purchased electricity consumed by the Company and its subsidiaries.
4 Non-hazardous waste produced in PRC only covered 三溪基地.
5 N/A refers to "not available". As the future technology business in New Zealand focuses on the design of products, the amount of non-hazardous waste produced is insignificant.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Wastewater

The Company and its subsidiaries always comply with the national regulation of Discharge Limits of Water Pollutants (DB44/26–2001) of the PRC on wastewater management. Wastewater is strictly forbidden to be mixed with rainwater. To reduce wastewater generation, the volume of wastewater production is one of our key concerns when designing new products and doing research on technology. All the chemical wastes are stored in specific location. It is not allowed to discharge wastewater into unauthorised locations, such as washroom and greenery area, etc.

Noise

Production plants in the PRC are required to comply with the regulation of Emission Standard for Industrial Enterprises Noise at Boundary (GB12348-2008). For premises that are equipped with generators and compressors, noise reduction devices are installed to reduce the noise generated from operation of machineries.

USE OF RESOURCES

The resources consumed by the Company and its subsidiaries are mainly water, electricity, fuel, paper, etc. In order to save resources and mitigate the negative impact to the environment, the Company and its subsidiaries' "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 resources usage allow us to identify any potential risk related to resource consumption.

Energy

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. The Company and its subsidiaries also established and implemented policy of "Office Environment Management Regulation" to provide guidelines for employee to save energy in office. The key measures to reduce the energy consumption in office include:

- Lights and electronic appliances need to be turned off when employees leave office and factories.

- The operation mode of air-conditioning system is adjusted according to the weather.

Energy usage is recorded by responsible department and analysis is carried out to compare the usage with the same month of the previous year. If there is any substantial increase in the energy consumption, the Company and its subsidiaries will analyse the causes to rectify the problems promptly. During the reporting period, the energy consumptions are as follows:

Energy consumption	**Unit**	**PRC**	**NZ**	**Total**
Purchased electricity	kWh in '000s	3,590.04	75.40	**3,665.44**
Petrol	kWh in '000s	205.16	30.82	**235.98**
Diesel	kWh in '000s	–	27.70	**27.70**
Total energy consumption	kWh in '000s	3,795.20	133.92	**3,929.12**
Energy intensity	kWh in '000s/m^2	0.23	0.041	**0.271**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water

Water is another important resource. To conserve water and reduce its usage, the Company and its subsidiaries remind employees to turn off the water when it is not in use and do not leave it running. Regular maintenance is also carried out for pipes to prevent leakage so as to save water resource.

The water consumption during the reporting period is as follow:

Water	Unit	PRC	NZ	Total
Water consumption	m^3	4,363.00	N/A[6]	**4,363.00**
Water intensity	m^3/m^2	0.26	N/A[6]	**0.26**

THE ENVIRONMENT AND NATURAL RESOURCES

The Company and its subsidiaries' "Environmental Policy" has outlined its 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 unfavourable impact to the environment is noticed.

SOCIAL ASPECTS
EMPLOYMENT AND LABOUR PRACTICES

The Company and its subsidiaries pride themselves 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 Company and its subsidiaries' vision to life with a sense of pride in what they do and the Company and its subsidiaries' 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 a different way of thinking. For a disruptive technology company, this ensures that we are constantly testing our thinking from different angles.

EMPLOYMENT

The Company and its subsidiaries expect that all employees and contractors treat one another with respect and dignity. In the Company and its subsidiaries' 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 Company and its subsidiaries strictly abide by relevant laws and regulations, such as the Labour Law of the PRC, the Labour Contract Law of the PRC and the Employment relations Act 2000 of New Zealand. In 2017, the Company and its subsidiaries were not subject to any punishment by the government and was not involved in any lawsuit relating to employment.

Equal Opportunity

The Company and its subsidiaries specifically prohibit discrimination on the basis of age, colour, disability, ethnicity, marital or family status, national origin, race, religion, sex, sexual orientation, or any other characteristics protected by the 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. Behaviours such as unwelcome conduct and sexual harassment are strictly prohibited.

[6] N/A refers to "not available". The water consumption data is not available in New Zealand as the water cost is not charged on the Company and its subsidiaries and water usage is not recorded.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HEALTH AND SAFETY

The Company and its subsidiaries were committed to providing a healthy and safe workplace for all its employees as stipulated in the Company and its subsidiaries' "Code of Conduct" and "Safety Policy". We have a set of safety management system which outlines detailed guidelines in different circumstances. The Company and its subsidiaries are 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. The Company and its subsidiaries also seek 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 Company and its subsidiaries

To further enhance the health of safety in workplace, this year, the Company and its subsidiaries have commissioned a consultancy company to review its safety working procedures. This can help the Company and its subsidiaries to improve the safety standard. The Company and its subsidiaries also concern about both mental and physical well-being of employees. The Company and its subsidiaries' "Workplace Stress and Fatigue Management Policy" aims to provide a system for us to identify and manage any workplace stress and fatigue.

In 2017, the Company and its subsidiaries were not subject to any punishment by the government and were not involved in any lawsuit related to health and safety.

DEVELOPMENT AND TRAINING

The Company and its subsidiaries provide 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 Company and its subsidiaries provide both internal and external trainings for employees, including orientation training for new employees, specialised trainings for different departments, management trainings etc. The trainings are particularly focused on safety trainings with the aim to improve the quality of employees' safety and to establish a corporate safety culture. With these trainings, the safety knowledge of the employees can be strengthened and the safety awareness can be enhanced. This can decrease the occurrence of work-related accidents. Moreover, the Company and its subsidiaries' "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 Company and its subsidiaries respect the right of employee and maintain a high labour standard. The Company and its subsidiaries are strictly in compliance with the Labour Contract Law of PRC and Employment Relations Act 2000 of New Zealand. The Company and its subsidiaries do not tolerate any form of forced child labour and forced labour. In the Company and its subsidiaries' recruitment guideline, candidate who aged under 18 is not allowed to work in the company. In 2017, the Company and its subsidiaries were not subject to any punishment by the government and were not involved in any lawsuit relating to child and forced labour.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OPERATING PRACTICES

SUPPLY CHAIN MANAGEMENT

A long-term cooperation between the Company and its subsidiaries and their suppliers is important to the operation of the business. The Company and its subsidiaries' "Procurement Management Regulation" provide guideline on supply chain management. The choice of suppliers is 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 our existing suppliers.

PRODUCT RESPONSIBILITY

The Company and its subsidiaries are a world leader in future technology, as well as the owner of the relevant core intellectual properties. The Company and its subsidiaries have a world-class research and development team that integrates various advanced technologies in electronic information, mathematics and statistics, and other disciplines and has over 736 patent applications. Product responsibility is a key consideration across all aspects of the development of the Company and its subsidiaries' products including design, manufacturing, training and operations. The Company and its subsidiaries comply with laws and regulations related to product responsibility in the regions where they operate, for instance, Product Quality Law of the PRC, Trademark Law of the PRC, Fair Trading Act 1986 of New Zealand and Consumer Guarantee Act 1993 of New Zealand. In 2017, the Company and its subsidiaries were not subject to any punishment by the government and were 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 Company and its subsidiaries. To ensure the safety and quality of our products, the Company and its subsidiaries have 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 defects. 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 Company and its subsidiaries. Significant technology and intellectual property developed through research and development of the Company and its subsidiaries has been protected under registered patents. The Company and its subsidiaries' policy of "Intellectual Property Management System" describes clearly the practices on protection of intellectual property rights. Every employee is required to sign an agreement, which states clearly the ownership of the intellectual property. Before disclosure of patent application is made, every employee has the responsibility to keep all related information in secret.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Customer Data Protection and Privacy

Data is our valuable asset. The Company and its subsidiaries have 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 Company and its subsidiaries. Data is classified into different levels according to the confidentiality as public, internal, and restricted/confidential.

ANTI-CORRUPTION

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

The Company and its subsidiaries are 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 Company and its subsidiaries' expectations on staff with regard to conflicts of interest.

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

In 2017, the Company and its subsidiaries were not subject to any punishment by the government and were not involved in any lawsuit related bribery, extortion, fraud and money laundering.

COMMUNITY

COMMUNITY INVESTMENT

The Company and its subsidiaries have established a "Community Involvement Policy" to promote community involvement and social contribution. It provides an opportunity for employees to volunteer and serve the community. The Company and its subsidiaries have 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 it hosts 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 that it can offer but it encourages employees to participate in charitable events and it supports charities directly through offering a Jetpack Experience for auctioning.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING INDEX

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Liu Ruopeng, aged 34, is currently the chairman and executive Director of the Company and also the chairman of nomination committee of the Company. Dr. Liu joined the Company 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 is a chairman of Kuang-Chi Technologies Co., Ltd., a company listed on the Shenzhen Stock Exchange (security code: 002625.SZ). 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 38, 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 Company 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 38, is currently the co-chief executive officer and chief technology officer and executive Director of the Company. Dr. Luan joined the Company 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Dorian Barak, aged 44, is currently an executive Director of the Company. Mr. Barak joined the Company 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 a non-executive director of Yunfeng Financial 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 DIRECTORS

Mr. Ko Chun Shun, Johnson, aged 66, was an executive Director and was re-designated as the non-executive Director on 16 May 2017. Mr. Ko joined the Company 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 (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 Inc. (stock code: 1357), and Mr. Ko had also been the chairman and an executive director of BOE Varitronix Limited (BM) (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 of Hong Kong.

Mr. Song Dawei, aged 50, 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. Mr. Song join the Company in February 2017. 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 53, 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 Company 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Wong Kai Kit, aged 44, is currently an independent non-executive Director of the Company and also the chairman of remuneration committee and a member of audit committee and nomination committee. Dr. Wong joined the Company 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.

Ms. Cao Xinyi, aged 35, is currently an independent non-executive Director of the Company and also the chairman of audit committee. Ms. Cao joined the Company 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 (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 2017 are disclosed in the section headed "Directors' and Chief Executives' Interests in Shares" of the Directors' Report of this annual report.

DIRECTORS' REPORT

The Directors are pleased to present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017.

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 Company 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 Company and its subsidiaries' principal activities during the year ended 31 December 2017.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

During the year, the Company and its subsidiaries' five largest suppliers and the largest supplier accounted for approximately 51.9% and 22.5% respectively of the Company and its subsidiaries' total purchases.

During the year, the Company and its subsidiaries' five largest customers accounted for approximately 95.4% of the Company and its subsidiaries' total sales. The largest customer accounted for approximately 44.3% of the Company and its subsidiaries' 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 Company and its subsidiaries' five largest suppliers and customers during the year.

RESULTS AND APPROPRIATIONS

The results of the Company and its subsidiaries for the year ended 31 December 2017 are set out in the consolidated financial statements on pages 68 to 73.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2017.

BUSINESS REVIEW

Overview

A business review, particulars of important events that have occurred since the end of the year and future development of the Company and its subsidiaries are set out in the section headed "Management Discussion and Analysis" on pages 5 to 15 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 Company and its subsidiaries' gross profit margin, based on gross profit for the year to revenue, was 42% (2016: 68%) for the year ended 31 December 2017. The gross profit margin for 2017 decreased as compared to that for 2016, mainly due to sale of other products of lower margin for 2017.

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 Company and its subsidiaries' EBITDA, share based payment and impairment loss recognised in respect of goodwill decrease to HK$178,270,000 (2016: HK$871,070,000) reflecting the decrease in the fair value gain from the investment of Longsheng and increase in other operating expenses during the year ended 31 December 2017.

The level of debt (including obligations under finance lease and bank and other borrowings) to equity of the Company and its subsidiaries was at a healthy level of 0.16 times as at 31 December 2017 (2016: 0.1). The Company and its subsidiaries 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 Company and its subsidiaries are committed to the long term sustainability of the environment and communities in which we operate and are 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 Company and its subsidiaries provide 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 Company and its subsidiaries, the conscious minimising in consumption of resources and adoption of environmental best practices across the Company and its subsidiaries' businesses underlie our commitment to conserving and improving the environment. The Company and its subsidiaries comply with environmental legislation, encourage environmental protection and promote our awareness to all employees of the organization.

The Company and its subsidiaries commit to the principle and practice of recycling and reducing. To help conserve the environment, we implement 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 Company and its subsidiaries will review their environmental practices from time to time and consider implementing further eco-friendly measures, sustainability targets and practices in the operation of the Company and its subsidiaries' 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 Company and its subsidiaries support and encourage 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 Company and its subsidiaries continue to update our 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 2017 and up to the date of this report, as far as the Board of Directors and management are aware, we have complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries. For the year ended 31 December 2017, 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 Company and its subsidiaries, 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 is 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 Company and its subsidiaries are aware of any such changes of economic environment and adjust our business plan under different market conditions.

(3) Foreign Exchange Rate Risk

The majority of the Company and its subsidiaries' 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 Company and its subsidiaries. The Company and its subsidiaries currently have minimal exposure to foreign currency risk, but continue 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 Company and its subsidiaries.

Relationships with key stakeholders

The Company and its subsidiaries' 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 Company and its subsidiaries. The objective of the Company and its subsidiaries' 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 advancement through appropriate training and opportunities provided within the Company and its subsidiaries.

DIRECTORS' REPORT

Customers

The Company and its subsidiaries maintain a good relationship with the customers. It is the Company and its subsidiaries' 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 Company and its subsidiaries 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 Company and its subsidiaries 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 Company and its subsidiaries during the year are set out in the consolidated statement of changes in equity on page 72 and other details of the reserves of the Company are set out in note 46 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2017, the Company had no reserves available for distribution. However, the Company's share premium account, in the amount of approximately HK$2,339,550,000 may be distributed in the form of fully paid bonus shares.

FIXED ASSETS

Details of movements in the Company and its subsidiaries' property, plant and equipment, investment properties and prepaid land lease payments during the year are set out in notes 17, 21 and 25 to the consolidated financial statements respectively.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 35 to the consolidated financial statements and "Capital Structure" in the section headed "Management Discussion and Analysis" on page 10 of this annual report.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Company and its subsidiaries for the last five financial years is set out on page 157.

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.

DIRECTORS' REPORT

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

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

SHARES ISSUED

On 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.

On 14 December 2017, the Company received a notice to exercise the option of 46,981,358 ordinary shares of the Company under the share option scheme adopted on 31 July 2012. On 22 December 2017, the Company issued 46,981,358 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 10 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. Dorian Barak*

Non-executive Directors

Mr. Ko Chun Shun, Johnson#
Mr. Song Dawei*

Independent Non-executive Directors

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

* Appointed on 1 February 2017
\# Re-designated from Executive Director on 16 May 2017

DIRECTORS' REPORT

In accordance with Bye-laws 87 of the Company, Dr. Liu Ruopeng, Dr. Liu Jun and Dr. Wong Kai Kit will retire 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 28 to 30.

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 Company and its subsidiaries' 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 Company and its subsidiaries.

EMOLUMENT POLICY

The emolument policy of the employees of the Company and its subsidiaries 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 10 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 Company and its subsidiaries during the year ended 31 December 2017 are set out in note 10 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 Company and its subsidiaries 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 2017. 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 Company and its subsidiaries did not have any continuing connected transactions.

Connected transactions

During the year, the Company and its subsidiaries have 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 Agreement made with Sky Asia was terminated due to the conditions precedent set out in the Sky Asia Subscription Agreement 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.

* *For identification purpose only*

DIRECTORS' REPORT

KC Subscription in Kuang-Chi Technologies Co., Ltd. ("KCT", formerly known as "Zhejiang Longsheng Auto Parts Co., Ltd. ("Longsheng")（浙江龍生汽車部件股份有限公司）)

On 25 March 2015, Kuangchi Space Technology Company Limited (the "KCST"), a wholly owned subsidiary of the Company, and KCT (stock code: 002625.SZ) entered into a subscription agreement (the "KC Subscription Agreement"), pursuant to which KCT 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$345 million).

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 KCT 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, KCT obtained the approval from the China Securities Regulatory Commission for the subscription. After satisfying all the conditions of the subscription agreement on 13 February 2017, the Company and its subsidiaries held 3.32% of the ordinary shares in issue of KCT.

Installation Services and Equipment Procurement Contract

On 20 December 2017, Shenzhen KuangChi Zhiyun Information Technology Limited ("Zhiyun Information") (an indirect wholly-owned subsidiary of the Company) and Shenzhen KuangChi Intelligent Photon Technology Limited ("Photon Technology") entered into the Installation Services and Equipment Procurement Contract, pursuant to which Zhiyun Information will procure WIFI network equipment for Photon Technology and provide related installation work and commissioning services to Photon Technology at a consideration of RMB8,060,000 (equivalent to approximately HK$9,500,000). The consideration was negotiated and determined by the parties on an arm's length basis after taking into consideration of, among others, prevailing market conditions (including with reference to the market price (which is the price requested by independent third parties for the sales of same or similar equipment or for the provision of same or similar services), the scope of services and the level of manpower, expertise and resources required for the procurement of equipment for, and the provision of related installation work and commissioning services to, Photon Technology by Zhiyun Information.

According to the Installation Services and Equipment Procurement Contract, Zhiyun Information will procure WIFI network equipment for Photon Technology and provide related installation work and commissioning services. The scope of the procurement and services will cover: 1) procurement of WIFI equipment; 2) procurement of network management, maintenance and operation service supporting platform and provision of related installation and commissioning services; 3) procurement of Mobile Agent Server message platform and provision of related installation and commissioning services; and 4) procurement of WIFI network security equipment and provision of related installation and commissioning services.

Dr. Liu Ruopeng is the Director and Controlling Shareholder of the Company and a controlling shareholder of Photon Technology. Hence, Photon Technology is a connected person of the Company under Chapter 14A of the Listing Rules, and the transactions contemplated under the Installation Services and Equipment Procurement Contract constitute connected transactions of the Company under the Listing Rules.

DIRECTORS' REPORT

Other related party transactions

Save as disclosed above, the other related party transactions as disclosed in note 44 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 Company and its subsidiaries during the year ended 31 December 2017.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2017, 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		Approximate percentage
Name of Director/Chief executive	Personal interests	Corporate interests	Personal interest	Total	of total issued Shares
Dr. Liu Ruopeng ("Dr. Liu")	–	3,078,000,000 (L) *(note 2)*	–	3,078,000,000 (L)	49.99%
	–	2,078,000,000 (S) *(note 3)*	–	2,078,000,000 (S)	33.75%
Mr. Ko Chun Shun, Johnson ("Mr. Ko")	–	56,000,000 (L) *(note 4)*	–	56,000,000 (L)	0.91%
Dr. Zhang Yangyang ("Dr. Zhang")	–	–	8,000,000 (L) *(note 5)*	8,000,000 (L)	0.13%
Dr. Luan Lin ("Dr. Luan")	–	–	7,900,000 (L) *(note 6)*	7,900,000 (L)	0.13%
Dr. Liu Jun	80,000 (L)	–	–	80,000 (L)	0.001%
Mr. Dorian Barak ("Mr. Barak")	–	–	1,000,000 (L) *(note 7)*	1,000,000 (L)	0.016%

DIRECTORS' REPORT

Notes:

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

2. This represents 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.

3. This represents

   (i) the share charge given by New Horizon in favour of Ping An over 1,544,666,667 Shares owned by New Horizon.

   (ii) the share charge given by New Horizon in favour of Everbright Fortune over 533,333,333 Shares owned by New Horizon.

4. This represents the interests in 56,000,000 Shares held by Starbliss Holdings Limited ("Starbliss"). Starbliss is ultimately wholly owned by Mr. Ko.

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

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

7. This represents interests in the share options of the Company held by Mr. Barak. Mr. Barak was interested in an aggregate of (i) 75,706 warrants of SkyX Limited, a subsidiary of the Company, which entitling the holder to subscribe for 75,706 shares (equivalent to approximately 3.01% of the fully diluted shareholding); (ii) 3,030 warrants of Beyond Verbal Communications Ltd., the Company's associated corporation, which entitling the holder to subscribe for 3,030 shares (equivalent to approximately 0.98% of the fully diluted shareholding).

8. As at 31 December 2017, the issued shares of the Company is 6,156,928,860.

Save as disclosed above, as at 31 December 2017, 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.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2017, 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	Approximate Percentage of total issued Shares
Ms. Huang Weizi ("Ms. Huang")	Beneficial owner and interest of spouse	3,078,000,000 (L) *(note 2)*	–	3,078,000,000 (L)	49.99%
		2,078,000,000 (S) *(note 3)*	–	2,078,000,000 (S)	33.75%
New Horizon	Beneficial owner	3,078,000,000 (L) 2,078,000,000 (S)	– –	3,078,000,000 (L) 2,078,000,000 (S)	49.99% 33.75%
Wireless Connection Innovative Technology Limited	Interest of controlled corporation	3,078,000,000 (L) 2,078,000,000 (S)	– –	3,078,000,000 (L) 2,078,000,000 (S)	49.99% 33.75%
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) 2,078,000,000 (S)	– –	3,078,000,000 (L) 2,078,000,000 (S)	49.99% 33.75%
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) 2,078,000,000 (S)	– –	3,078,000,000 (L) 2,078,000,000 (S)	49.99% 33.75%
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) 2,078,000,000 (S)	– –	3,078,000,000 (L) 2,078,000,000 (S)	49.99% 33.75%
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) 2,078,000,000 (S)	– –	3,078,000,000 (L) 2,078,000,000 (S)	49.99% 33.75%
Ping An Bank Co., Ltd. *(note 4)*	Person having a security interest in Shares	1,544,666,667 (L)	–	1,544,666,667 (L)	25.09%
Ping An Insurance (Group) Company of China Ltd.	Interest of controlled corporation	1,544,666,667 (L)	–	1,544,666,667 (L)	25.09%
World Treasure Global Limited *(note 5)*	Beneficial owner	1,042,981,013 (L)	–	1,042,981,013 (L)	16.94%

* *For identification purpose only*

DIRECTORS' REPORT

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate Percentage of total issued Shares
Central Faith International Ltd.	Interest of controlled corporation	1,042,981,013 (L)	–	1,042,981,013 (L)	16.94%
上海光大富尊璟琿投資中心（有限合伙）(*Shanghai Everbright Fortune Jinghui Investment Center) *(note 6)*	Person having a security interest in Shares	736,573,185 (L)	–	736,573,185 (L)	11.96%
光大富尊泰鋒投資管理（上海）有限公司(*Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd) *(note 7)*	Interest of controlled corporation	736,573,185 (L)	–	736,573,185 (L)	11.96%
光大富尊投資有限公司(*Everbright Fortune Investment Co., Ltd) *(note 8)*	Interest of controlled corporation	736,573,185 (L)	–	736,573,185 (L)	11.96%
光大証券股份有限公司(*Everbright Securities Company Limited)	Interest of controlled corporation	736,573,185 (L)	–	736,573,185 (L)	11.96%

* *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. Ms. Huang, being the spouse of Dr. Liu, is deemed to be interested in the same number of Shares held by New Horizon.

3. This represents

   (i) the share charge given by New Horizon in favour of Ping An Bank over 1,544,666,667 Shares owned by New Horizon.

   (ii) the share charge given by New Horizon in favour of Everbright Fortune over 533,333,333 Shares owned by New Horizon.

4. 49.56% of equity interest of Ping An Bank is held by Ping An Insurance (Group) Company of China Ltd.

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

6. 50% of equity interest of Shanghai Everbright Fortune Jinghui Investment Center (Limited Liability Partnership) is held by Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd.

7. 85% of equity interest of Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd is held by Everbright Fortune Investment Co., Ltd.

DIRECTORS' REPORT

8. 100% of equity interest of Everbright Fortune Investment Co., Ltd. is held by Everbright Securities Company Limited.

9. As at 31 December 2017, the issued share capital of the Company is 6,156,928,860.

Save as disclosed above, as at 31 December 2017, 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.

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 Company and its subsidiaries. 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 Company and its subsidiaries or whom the Board in its sole discretion considers eligible for the scheme on the basis of his or her contribution to the Company and its subsidiaries.

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 270,606,779 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 2017.

DIRECTORS' REPORT

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

Category of participant	Date of Grant	Exercise price HK$	Exercisable period [2]	Outstanding as at 1 January 2017	Granted during the year	Exercise during the year	Forfeited during year	Outstanding as at 31 December 2017
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	–	(24,900,000)	–	15,900,000
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	–	(39,627,735)	(9,265)	–
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	–	(42,627,735)	(9,265)	54,100,000
Total				137,537,000	–	(67,527,735)	(9,265)	70,000,000

(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 Company and its subsidiaries 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 2017, no restricted shares were granted by the Company. During the year ended 31 December 2017, 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 Company 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 2017	Cancelled during the year	Reallocated during the year	Outstanding as at 31 December 2017
MACL Option Schemes							
Directors and employees of MACL	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	213,332	–	53,335	266,667
	1 November 2014	0.43	September 2015 – September 2019	480,000	(213,334)	–	266,666
	1 November 2014	0.43	September 2016 – September 2019	1,280,000	(959,998)	(53,335)	266,667
	1 November 2014	0.43	September 2017 – September 2019	266,667	(266,667)	–	–
	1 November 2014	0.43	May 2016 – May 2020	266,667	(266,667)	–	–
	1 November 2014	0.43	May 2017 – May 2020	266,667	(266,667)	–	–
	1 November 2014	0.43	May 2018 – May 2020	266,667	(266,667)	–	–
				6,190,000	(2,390,000)	–	3,800,000
Exercisable				6,190,000			3,800,000
Weighted average exercise price (NZD)				0.3333			0.2800

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 2017 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 2017.

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 2017, 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 Company and its subsidiaries.

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 year" 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 in Corporate Governance Report). The Audit Committee has reviewed the audited results for the year ended 31 December 2017 and agreed with the accounting treatment adopted. The Audit Committee is satisfied with the Company and its subsidiaries' internal control procedure and financial reporting disclosures.

AUDITOR

The financial statements for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers. PricewaterhouseCoopers was appointed as auditor of the Company at the annual general meeting on 28 June 2017, following the resignation of Deloitte Touche Tohmatsu.

On behalf of the Board

Dr. Liu Ruopeng
Chairman and Executive Director

Hong Kong, 16 March 2018

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report of the Company and its subsidiaries for the year ended 31 December 2017.

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 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 CG Code stipulate that independent non-executive directors, non-executive directors and the chairman of the board of directors should attend annual general meetings. The two non-executive Directors, Mr. Ko Chun Shun Johnson and Mr. Song Dawei, and an independent non-executive Director Dr. Wong Kai Kit, did not attend the annual general meeting held on 28 June 2017, due to other business commitments.

THE BOARD

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Company and its subsidiaries' 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 Company and its subsidiaries. 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 and 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 since 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 four executive Directors, two non-executive Directors and three independent non-executive Directors from different business and professional fields. The Directors, including non-executive Directors 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. Dorian Barak (appointed on 1 February 2017)
Non-executive Directors	Mr. Ko Chun Shun, Johnson (re-designated from Executive Director on 16 May 2017) Mr. Song Dawei (appointed on 1 February 2017)
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 28 to 30. 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 Company and its subsidiaries' business, recommending strategies to the Board, and determining and implementing operational decisions.

CORPORATE GOVERNANCE REPORT

Directors' and officers' insurance

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

Independent Non-Executive Directors

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

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.

Code Provisions A.4.1 of CG Code states that Non-executive directors should be appointed for a specific term, subject to re-election.

Code Provisions A.4.2 of CG Code also states that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Their appointments would be reviewed when they were due for re-election.

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 Hong Kong Stock Exchange ("Stock Exchange") 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 2017 to the Company.

BOARD COMMITTEES

The Board has established three committees, namely the Remuneration Committee, Audit Committee and Nomination Committee, each of which has specific written terms of reference.

Remuneration Committee

The Remuneration Committee comprises one executive Director and two independent non-executive Directors. The Committee is chaired by Dr. 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, and that the 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 Notes 10 and 12 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 Directors) by band for the year ended 31 December 2017 are disclosed in Note 10 to the consolidated financial statements.

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 following:

(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 three meetings during the year ended 31 December 2017 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. The Company has complied with the CG Code C.3.3 during the year under review.

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.

The Board adopted a board diversity policy (the "Board Diversity Policy") setting out the approach to diversify members of the Board since 2016. 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 eight times during the year ended 31 December 2017.

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 2017 is set out in the table below:

	Meetings attended/Eligible to attend				
	Board of Directors	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Executive Directors					
Dr. Liu Ruopeng	7/8	N/A	N/A	1/1	1/1
Dr. Zhang Yangyang	8/8	N/A	1/1	N/A	0/1
Dr. Luan Lin	8/8	N/A	N/A	N/A	1/1
Mr. Dorian Barak*	5/6	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. Ko Chun Shun, Johnson#	5/8	N/A	N/A	N/A	0/1
Mr. Song Dawei*	5/6	N/A	N/A	N/A	0/1
Independent Non-executive Director					
Dr. Liu Jun	6/8	3/3	1/1	1/1	1/1
Dr. Wong Kai Kit	6/8	3/3	1/1	1/1	0/1
Ms. Cao Xinyi	5/8	3/3	N/A	N/A	1/1

* Appointed on 1 February 2017
# Re-designated from Executive Director on 16 May 2017

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 review.

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 Company and its subsidiaries 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 the 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

During the year ended 31 December 2017, the role of the Company Secretary was Mr. Law Wing Hee ("Mr. Law"). He was responsible for facilitating the Board process, as well as the communications among the Board members, shareholders and management. The Company Secretary also prepared detailed minutes of each meeting. Board minutes would be sent to the Board for comments as soon as practicable. Mr. Law reports directly to the Board. All Directors also have access to the advice and services of the Company Secretary to ensure that all applicable laws, rules and regulations are followed. During the year under review, Mr. Law complied with all the required qualifications, experience and training requirements of the Listing Rules. Mr. Law resigned as the Company Secretary on 1 March 2018, and Mr. Cheng Chi Chung Kevin ("Mr. Cheng") was appointed as the Company Secretary on the even date.

The Company's secretarial functions are outsourced to external service provider since 1 March 2018. Pursuant to paragraph N(a) of the CG Code, the primary contact person at the Company is Mr. Li Chiu Ho Troy, the Financial Controller of the Company. All Directors may access to the advices and services of the Company Secretary. The Company Secretary will regularly update the Board on governance and regulatory matters.

The Board is fully involved in selection, appointment and dismissal of the Company Secretary. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROL

Directors' responsibilities for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company and its subsidiaries 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 2017, 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, risk management and internal control systems 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 59 to 67.

Risk management and internal control

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 Company and its subsidiaries against unauthorised use or disposition. The Board designated this responsibility to Audit Committee. During the year under review, the Audit Committee has conducted a review of the effectiveness and adequacy of the risk management and internal control systems of the Company and its subsidiaries covering all material controls, including financial, operational and compliance controls and risk management functions, and has reached the conclusion that the Company and its subsidiaries' risk management and internal control systems were in place and effective. As at the date of this report, the Company has an internal audit function.

External auditor and auditor's remuneration

Following the retirement of Deloitte Touche Tohmatsu as the Company's external auditor on 28 June 2017, PricewaterhouseCoopers ("PWC") was appointed as the new external auditor of the Company on the even date upon shareholders' approval in the 2017 annual general meeting. The responsibilities of the auditor with respect to the financial reporting are set out in the Independent Auditor's Report on pages 59 to 67 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.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2017, the fees payable by the Company and its subsidiaries to the external auditor in respect of audit and non-audit services provided by them were as follows:

Services rendered for the Company and its subsidiaries

	HK$'000
Audit services	2,700
Total	2,700

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 Unit 1220, 12/F, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong. Shareholders' enquiries and concerns, where appropriate, will be forwarded to and answered by the Board. In addition, shareholders can contact the share registrar of the Company if they have any enquiries about their shareholdings. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Stock Exchange and the Company after each shareholder meeting.

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

Investor relations and communications with shareholders

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

Information in relation to the Company and its subsidiaries 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.

CORPORATE GOVERNANCE REPORT

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 (whichever 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 2017, there are no changes in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of KuangChi Science Limited
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The consolidated financial statements of KuangChi Science Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 156, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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 2017, 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 the 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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 matters identified in our audit are summarised as follows:

- Impairment of trade receivables;
- Impairment of goodwill and capitalised development costs;
- Valuation of a subscription right of the shares of Kuang-Chi Technologies Co., Ltd. (formerly known as Zhejiang Longsheng Auto Parts Co., Ltd.); and
- Fair value measurement of available-for-sale financial assets.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of trade receivables	
Refer to Note 4 "Critical accounting judgements and estimates" and Note 28 "Trade and other receivables" to the consolidated financial statements of the Group. As at 31 December 2017, the Group had gross trade receivables of approximately HK$358,856,000, of which approximately HK$228,110,000 was past due. Management performed impairment assessment of the trade receivables based on information including but not limited to the aging of trade receivables, subsequent settlement status and financial capability of customers. Management made a provision for doubtful receivables of approximately HK$24,916,000 based on their assessment. We focused on this area due to the size of the trade receivables as at year end and significant judgement involved in evaluating customers' creditability and ability to repay.	Our procedures in relation to management's impairment assessment of trade receivables included: • Understood the status of each of the material receivables that were past due through discussion with management; • Checked the aging profile of the material receivables as at 31 December 2017 and the corresponding post year-end settlements, on a sample basis, to the underlying receivables sub-ledger, sales invoices and bank-in records; and • Assessed the customers' creditability and ability to repay on the material receivables that were past due as at 31 December 2017 by corroborating management's assessment and explanations with supporting evidence, such as payment history of the customers, latest correspondence with the customers and public search of the customers' profiles. Based on the above procedures performed, we found management's judgements used in their impairment assessment of trade receivables were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key Audit Matter

Impairment of goodwill and capitalised development costs

Refer to Note 4 "Critical accounting judgements and estimates" and Note 19 "Impairment test for goodwill and intangible assets" to the consolidated financial statements of the Group.

During the year ended 31 December 2017, the Group had recognised an impairment loss of approximately HK$32,364,000 on goodwill in relation to the acquisition of subsidiaries, and an impairment loss of approximately HK$162,791,000 on capitalised development costs. After the impairment losses recognised during the year, the Group had goodwill of approximately HK$9,264,000 and intangible assets of approximately HK$6,174,000 as at 31 December 2017. Management concluded that no further impairment would be necessary.

We focused on this area because the size of impairment losses recognised during the year was significant, and the impairment assessment process involved significant judgement in determining the recoverable amount of each of the Group's cash generating units which was based on assumptions used in the cash flow forecast that could be affected by future market or economic conditions.

The key assumptions used in management's value-in-use calculation methodology were as follows:

– Revenue growth rate;
– Perpetual growth rate; and
– Discount rate.

How our audit addressed the Key Audit Matter

Our procedures in relation to management's impairment assessment of goodwill and capitalised development costs included:

- Assessed the competency, capability and objectivity of the independent external valuer;
- Understood the impairment triggering events through discussion with management and corroborated management's assessment with supporting evidence, such as public search of relevant events and market information;
- Evaluated the appropriateness of the value-in-use calculation methodology adopted by management and the external valuer with the involvement of our internal valuation specialists;
- Discussed and evaluated the underlying key assumptions used in the forecast with management;
- Compared management's forecast for the current year made as of 31 December 2016 to the actual results of the current year to assess management's historical estimation accuracy;
- Reconciled the cash flow forecasts to management's approved budgets and assessed the reasonableness of these budgets by comparing historical information and business plan;
- Compared the revenue growth rate adopted by management to the revenue growth rates adopted by other market players;
- Discussed and evaluated the discount rate and terminal growth rate used in the calculations by comparing with industry or market data;

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
	• Tested the mathematical accuracy of the underlying value-in-use calculations; and • Evaluated the sensitivity analysis performed by management around the key assumptions applied to evaluate the extent of changes in those assumptions that either individually or collectively would be required for the remaining goodwill and intangible assets to be impaired. Based on the above procedures performed, we found the key assumptions applied by management in relation to assessment on impairment of goodwill and capitalised development costs were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of a subscription right of the shares of Kuang-Chi Technologies Co., Ltd. (formerly known as Zhejiang Longsheng Auto Parts Co., Ltd.)	
Refer to Note 4 "Critical accounting judgements and estimates" and Note 24 "Derivatives financial assets" to the consolidated financial statements of the Group. On 25 March 2015, the Group entered into a shares subscription agreement with Kuang-Chi Technologies Co., Ltd., a related company of the Group listed on the Shenzhen Stock Exchange. Pursuant to the agreement, the Group subscribed for the shares of Kuang-Chi Technologies Co., Ltd. subject to certain conditions as set out in the agreement, one of which was to obtain the approval of the subscription from the China Securities Regulatory Commission ("CSRC"). On 11 November 2016, the subscription was approved by the CSRC. The subscription right was recognised as a derivative financial asset measured at fair value through profit or loss for the year ended 31 December 2016. A marketability discount, based on the publicly traded stock, was applied in determining the fair value of the subscription right as it was not a publicly traded financial instrument. After satisfying all the conditions as set out in the agreement, the Group completed the subscription on 13 February 2017. Upon the subscription, the derivative financial asset was re-measured at market value of the publicly traded stock and a fair value gain of approximately HK$616,404,000 was recognised. We focused on this area due to management's assumptions and judgement involved in the determination of the fair value of the derivative financial asset and the significance of the fair value gain recognised during the year.	Our procedures in relation to the valuation of a subscription right of the shares of Kuang-Chi Technologies Co., Ltd. included: • Understood the terms in the shares subscription agreement signed between the Group and Kuang-Chi Technologies Co., Ltd.; • Assessed the competency, capability and objectivity of the independent external valuer; • Assessed the appropriateness of methodology used in the valuation by referencing to market practices and with the involvement of our internal valuation specialists; • Challenged management's assumptions on the marketability discount with reference to market practices and market data; • Discussed and evaluated the risk-free rate used in the valuation by comparing with the industry or market data; and • Tested the mathematical accuracy of the valuation calculations. Based on the above procedures performed, we found the key assumptions applied by management in relation to determination of the fair value of the derivative financial asset and the fair value gain recognised during the year were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of available-for-sale financial assets	
Refer to Note 3.3 "Fair value estimation" and Note 23 "Available-for-sale financial assets" to the consolidated financial statements of the Group. As at 31 December 2017, the Group had certain available-for-sale financial assets of approximately HK$97,761,000 measured at fair value with level 3 inputs. Level 3 inputs for valuations of financial assets were not based on active market prices, nor based on observable market data. We focused on this area because of the significance of these available-for-sale financial assets to the consolidated financial statements as well as the fact that determination of their fair values involved significant management judgement on the application of valuation methodologies and assumptions, in particular the revenue growth rates, products marketing strategies and the discount rate applied in discounted cash flows projections.	Our procedures in relation to the fair value measurement of the available-for-sale financial assets included: • Assessed the appropriateness of the methodologies used and challenged the key assumptions used in relation to unobservable inputs, with the involvement of our internal valuation specialists; • Compared the revenue growth rates adopted for each of the available-for-sale financial assets to the revenue growth rates adopted by other market players of comparable businesses; • Discussed and evaluated the discount rate used in the calculations by comparing with the relevant industries or market data; • Reconciled the input data to the corresponding supporting evidence, such as management's forecast of future profits and strategic plans; and • Reviewed the sensitivity analysis performed by management and assessed whether the changes in fair value are within a reasonable range by changing the assumptions individually or collectively. Based on the above procedures performed, we found the methodologies and assumptions applied by management in determining the fair values of available-for-sale financial assets using level 3 inputs were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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 Audit Committee 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 the 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.

The audit committee is 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. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda 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 judgement and maintain professional scepticism 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 the audit committee 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.

We also provide the audit committee 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.

INDEPENDENT AUDITOR'S REPORT

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

From the matters communicated with the audit committee, 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 this independent auditor's report is Benson Wai Bong Wong.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Continuing operations			
Revenue	5	**306,192**	290,492
Cost of sales		**(176,551)**	(92,046)
Gross profit		**129,641**	198,446
Other income	7	**69,867**	39,993
Other gains, net	8	**576,308**	816,969
Impairment loss of goodwill	18, 19	**(32,364)**	(39,382)
Impairment loss of intangible assets	18, 19	**(162,791)**	-
Selling and distribution expenses		**(54,938)**	(39,975)
Research and development expenses		**(255,271)**	(110,027)
Administrative expenses		**(195,899)**	(136,899)
Operating profit	9	**74,553**	729,125
Finance income		**13,864**	15,323
Finance costs		**(21,416)**	(4,126)
Finance (costs)/income, net	11	**(7,552)**	11,197
Share of results of associates	22	**(25,455)**	(2,858)
Impairment loss recognised in respect of an investment in an associate	22(b)	**(8,933)**	-
Profit before tax		**32,613**	737,464
Income tax expense	14	**(99,225)**	(140,430)
(Loss)/profit from continuing operations		**(66,612)**	597,034
Loss from discontinued operation (attributable to owners of the Company)	13	**–**	(490)
(Loss)/profit for the year		**(66,612)**	596,544
(Loss)/profit is attributable to:			
Owners of the Company		**66,051**	664,315
Non-controlling interests		**(132,663)**	(67,771)
		(66,612)	596,544

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
(Loss)/profit for the year		**(66,612)**	596,544
Earnings per share for profit from continuing operations attributable to owners of the Company			
Basic (HK cents per share)	15	**1.08**	11.34
Diluted (HK cents per share)	15	**1.08**	10.53
Earnings per share for profit attributable to owners of the Company			
Basic (HK cents per share)	15	**1.08**	11.33
Diluted (HK cents per share)	15	**1.08**	10.53
Other comprehensive (loss)/income			
Items that may be reclassified to profit or loss:			
Changes in fair value of available-for-sale financial assets		**(363,041)**	–
Exchange differences on translation of foreign operations		**130,923**	(46,276)
Disposal of foreign operation		**–**	(1,088)
		(232,118)	(47,364)
Total comprehensive (loss)/income for the year		**(298,730)**	549,180
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(167,956)**	619,086
Non-controlling interests		**(130,774)**	(69,906)
		(298,730)	549,180
Total comprehensive (loss)/income attributable to owners of the Company from			
Continuing operations		**(167,956)**	652,112
Discontinued operation		**–**	(33,026)
		(167,956)	619,086

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	17	**228,409**	149,435
Intangible assets and goodwill	18	**15,438**	256,090
Investment property	21	**–**	13,800
Investments in associates	22	**27,582**	33,166
Available-for-sale financial assets	23	**1,518,572**	29,040
Derivative financial assets	24	**–**	798,912
Prepaid land lease payments	25	**89,900**	83,581
Deposits for acquisition of plant and equipment		**23,493**	25,634
Loan receivables	29	**–**	21,711
Long-term deposits, prepayments and other receivables	28	**12,859**	5,389
Total non-current assets		**1,916,253**	1,416,758
CURRENT ASSETS			
Prepaid land lease payments	25	**–**	2,204
Inventories	27	**20,472**	149,310
Trade and other receivables	28	**401,141**	522,938
Loans receivables	29	**24,224**	273,989
Income tax recoverable		**3,614**	2,949
Time deposits	26	**180,120**	252,005
Structured bank deposits	26	**–**	13,397
Cash and cash equivalents	26	**787,477**	870,558
Total current assets		**1,417,048**	2,087,350
Total assets		**3,333,301**	3,504,108
EQUITY			
Share capital	35	**61,569**	60,894
Other reserves	36	**2,159,252**	2,228,448
Retained earnings		**237,644**	171,593
Equity attributable to owners of the Company		**2,458,465**	2,460,935
Non-controlling interests		**75,584**	268,776
Total equity		**2,534,049**	2,729,711

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
LIABILITIES			
NON-CURRENT LIABILITIES			
Bank and other borrowings	32	**360,955**	–
Deferred income tax liabilities	34	**159,086**	118,719
Total non-current liabilities		**520,041**	118,719
CURRENT LIABILITIES			
Trade and other payables	30	**223,935**	287,838
Deferred government grants	31	**11,528**	73,682
Income tax payable		**8,510**	23,427
Bank and other borrowings	32	**35,238**	264,147
Convertible debenture	33	**–**	6,584
Total current liabilities		**279,211**	655,678
Total liabilities		**799,252**	774,397
Total equity and liabilities		**3,333,301**	3,504,108

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 68 to 156 were approved and authorised for issue by the Board of Directors on 16 March 2018 and were signed on its behalf:

Dr. Liu Ruopeng
DIRECTOR

Dr. Luan Lin
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital HK$'000 (Note 35)	Other reserves HK$'000 (Note 36)	Retained earnings HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2016	60,894	2,210,551	(349,314)	1,922,131	252,867	2,174,998
Profit/(loss) for the year	–	–	664,315	664,315	(67,771)	596,544
Other comprehensive loss for the year	–	(45,229)	–	(45,229)	(2,135)	(47,364)
Total comprehensive (loss)/income for the year	–	(45,229)	664,315	619,086	(69,906)	549,180
Acquisition of subsidiaries	–	–	–	–	5,364	5,364
Derivative financial assets derecognised upon exercise of the underlying options (Note 24)	–	–	(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	–
Share-based compensation	–	63,126	–	63,126	(1,941)	61,185
At 31 December 2016	60,894	2,228,448	171,593	2,460,935	268,776	2,729,711

	Share capital HK$'000 (Note 35)	Other reserves HK$'000 (Note 36)	Retained earnings HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	60,894	2,228,448	171,593	2,460,935	268,776	2,729,711
Profit/(loss) for the year	–	–	66,051	66,051	(132,663)	(66,612)
Other comprehensive loss for the year:						
Currency translation difference	–	129,034	–	129,034	1,889	130,923
Changes in fair value of available-for-sale financial assets, net of deferred tax	–	(363,041)	–	(363,041)	–	(363,041)
Total comprehensive (loss)/income for the year	–	(234,007)	66,051	(167,956)	(130,774)	(298,730)
Exercise of share option	675	107,639	–	108,314	–	108,314
Change in shareholding in existing subsidiaries without changing control upon exercise of underlying options	–	(217)	–	(217)	217	–
Share-based compensation	–	33,188	–	33,188	2,314	35,502
Deemed disposal of a subsidiary (Note 40)	–	24,201	–	24,201	(64,949)	(40,748)
At 31 December 2017	61,569	2,159,252	237,644	2,458,465	75,584	2,534,049

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Cash flow from operating activities			
Cash (used in)/generated from operations	41(a)	**(57,294)**	32,459
Income tax paid		**(25,311)**	(7,529)
Interest paid		**(20,635)**	(2,508)
Net cash (used in)/generated from operating activities		**(103,240)**	22,422
Cash flow from investing activities			
Purchase of property, plant and equipment		**(100,542)**	(64,305)
Purchase of intangible assets		**(25,379)**	(72,071)
Proceeds from disposal of property, plant and equipment	41(b)	**1,035**	9,610
Interest received		**11,491**	8,466
Advance of loan receivables		**(24,721)**	(295,700)
Proceeds from repayment of loan receivables		**273,988**	–
Release of time deposits		**256,474**	125,133
Placement of time deposits		**(177,914)**	(252,005)
Release of pledged deposits		**–**	143,280
Release of structured bank deposits		**476,396**	–
Placement of structured bank deposits		**(462,520)**	(13,397)
Net cash inflow from disposal of a subsidiary	41(c)	**9,096**	8,311
Investment in available-for-sale financial assets		**(436,757)**	(29,040)
Investment in an associate		**–**	(33,343)
Acquisition of subsidiaries, net of cash acquired		**–**	767
Net cash outflow from deemed disposal of a subsidiary	41(d)	**(42,948)**	–
Net cash used in investing activities		**(242,301)**	(464,294)
Cash flow from financing activities			
Proceeds from bank and other borrowings		**719,009**	264,147
Repayment of bank and other borrowings		**(602,397)**	(142,397)
Issuance of shares upon exercise of share option		**108,314**	–
Repayment of principal for obligations under finance lease		**–**	(233)
Net cash generated from financing activities		**224,926**	121,517
Net decrease in cash and cash equivalents		**(120,615)**	(320,355)
Cash and cash equivalents at beginning of the year		**870,558**	1,228,556
Effect of exchange rate changes on cash and cash equivalents		**37,534**	(37,643)
Cash and cash equivalents at end of the year	26	**787,477**	870,558
Cash flows of discontinued operation	13	**–**	2,813

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 GENERAL INFORMATION

KuangChi Science Limited (the "Company") and its subsidiaries are principally engaged in the research, and development and manufacturing of innovative products for future technology business, and provision of other innovative technology service solution.

The Company is a limited company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of its business is located at Unit 1220, 12/F, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong.

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Company and its subsidiaries consisting of KuangChi Science Limited and its subsidiaries.

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of KuangChi Science Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for the available-for-sale financial assets, derivative financial assets and an investment property, which are measured at fair value.

(iii) New and amended standards adopted by the Company and its subsidiaries

The Company and its subsidiaries have applied the following standards and amendments to HKFRS issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time for their annual reporting period commencing 1 January 2017:

HKAS12 (Amendments)	Disclosure of interest in other entities
HKAS 7 (Amendments)	Statement of cash flows
HKFRS 12 (Amendments)	Income taxes

The application of the amendments to HKFRS in the current year has had no material impact on the Company and its subsidiaries' 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 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iv) New standards and amendments to HKFRS in issue but not yet effective

Certain new accounting standards and amendments have been published that are not mandatory for the 31 December 2017 reporting period and have not been early adopted by the Company and its subsidiaries.

HKFRS 1 (Amendments)	First time adoption of HKFRS [(1)]
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions [(1)]
HKFRS 4 (Amendments)	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts [(1)]
HKFRS 9	Financial instruments [(1)]
HKFRS 9 (Amendments)	Prepayment Features with negative compensation [(2)]
HKFRS 15	Revenue from contracts with customers [(1)]
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 [(1)]
HKAS 28 (Amendments)	Investments in associates and joint ventures [(1)]
HKAS 40 (Amendments)	Transfer of investment property [(1)]
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration [(1)]
HKFRS 16	Leases [(2)]
HK(IFRIC)-Int 23	Uncertainty over income tax treatments [(2)]
HKFRS 17	Insurance contracts [(3)]
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate and joint venture [(4)]
Amendments to HKFRS	Annual improvements to HKFRS 2015-2017 Cycle [(2)]

Note:

(1) Effective for the Company and its subsidiaries for annual period beginning on 1 January 2018.

(2) Effective for the Company and its subsidiaries for annual period beginning on 1 January 2019.

(3) Effective for the Company and its subsidiaries for annual period beginning on 1 January 2021.

(4) Effective date to be determined.

HKFRS 9 Financial Instruments

HKFRS 9, "Financial Instruments" replaces the whole of HKAS 39. HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognized in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss. HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iv) New standards and amendments to HKFRS in issue but not yet effective (Continued)

HKFRS 9 Financial Instruments (Continued)

Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognised in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of HKAS39. The Company and its subsidiaries are currently assessing the impact of adopting HKFRS 9. Based on its preliminary assessment, the impact on the Company and its subsidiaries' financial statements are not expected to be significant.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related Interpretations on revenue recognition. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Company and its subsidiaries have performed preliminary assessment on the adoption of HKFRS 15 and the initial result indicated that the impact on the Company and its subsidiaries' financial statements are not expected to be significant other than changes on the disclosure.

HKFRS 16 Leases

HKFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 "Leases", and related interpretations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iv) New standards and amendments to HKFRS in issue but not yet effective (Continued)

HKFRS 16 Leases (Continued)

The Company and its subsidiaries are lessees of various properties which are currently classified as operating leases. The Company and its subsidiaries' current accounting policy for such leases is set out in Note 2.23 under which operating lease payment is accounted for in the consolidated statements of comprehensive income when incurred and the Company and its subsidiaries' future operating lease commitments are not reflected in the consolidated statement of financial position but are disclosed in Note 42. As of 31 December 2017, the Company and its subsidiaries' total operating lease commitments amounted to HK$7,290,000.

HKFRS 16 provides new provisions for the accounting treatment of leases and all non-current leases, including future operating lease commitments, must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statement of financial position. Operating expenses under otherwise identical circumstances will decrease, and depreciation, amortisation and interest expense will increase. It is expected that certain portion of these lease commitments will be required to be recognised in the balance sheets as right of use assets and lease liabilities.

For the other amendments to standards presented, management is in the process of making an assessment of the likely impact of these changes but is not yet in a position to state whether any substantial changes to the Company and its subsidiaries' significant accounting policies and/or the presentation of its financial statements will result.

2.2 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company and its subsidiaries have control. The Company and its subsidiaries control an entity when the Company and its subsidiaries are exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and its subsidiaries. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Company and its subsidiaries (refer to Note 2.3). Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company and its subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(i) Subsidiaries (Continued)

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Associates

Associates are all entities over which the Company and its subsidiaries have significant influence but not control or joint control. This is generally the case where the Company and its subsidiaries hold between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

(iii) Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Company and its subsidiaries' share of the post-acquisition profits or losses of the investee in profit or loss, and the Company and its subsidiaries' share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Company and its subsidiaries' share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Company and its subsidiaries do not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Company and its subsidiaries and its associates and joint ventures are eliminated to the extent of the Company and its subsidiaries' interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Company and its subsidiaries.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(iv) Changes in ownership interests

The Company and its subsidiaries treat transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Company and its subsidiaries. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Company and its subsidiaries cease to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Company and its subsidiaries had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Company and its subsidiaries
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Company and its subsidiaries recognise any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at from such remeasurement are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The Company has appointed the executive directors as the chief operating decision maker to review the operating results of the Company and its subsidiaries on a consolidated basis, and make strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of the Company and its subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK$, which is the Company's functional and the Company and its subsidiaries' presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within 'finance (costs)/ income, net'. All other foreign exchange gains and losses are presented in consolidated statement of profit or loss within 'other gains, net'.

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of the Company and its subsidiaries (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that consolidated statement of financial position;

(ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Company and its subsidiaries' entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to the profit or loss.

2.7 Property, plant and equipment

Property, plant and equipment, comprising plant and machinery, furniture and fixtures, office equipment, leasehold improvements and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and its subsidiaries and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment (Continued)

Motor vehicles classified as finance lease commences depreciation from the time when the assets become available for its intended use. Depreciation of property, plant and equipment is calculated using the straight line method to allocate their cost to their residual values over its estimated useful lives, at the following rates per annum:

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

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains, net in the consolidated statement of profit or loss.

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost less impairment losses, if any. No provision for depreciation is made on assets under construction in progress until such time as the relevant assets are completed and available for their intended use. Upon completion, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

2.8 Intangible assets

(i) Goodwill

Goodwill is measured as described in Note 2.9. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets (Continued)

(ii) 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).

(iii) Internally-generated intangible assets – research and development expenses

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.

Research expenditure and development expenditure that do not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets (Continued)

(iv) Amortisation

The Company and its subsidiaries amortise intangible assets with a limited useful life using the straight-line method over the following periods:

• Software	3-5 years
• Technical knowhow and patents	6-10 years

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating-units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets

(i) Classification

The Company and its subsidiaries classify its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition. See Note 20 for details about each type of financial asset.

(a) Financial assets at fair value through profit or loss

The Company and its subsidiaries classify financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, ie are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets.

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.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Company and its subsidiaries' loans and receivables comprise of trade and other receivables, loan receivables, time deposits, structured bank deposits and cash and cash equivalents in the consolidated statement of financial position.

(c) Available-for-sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at fair value through profit or loss on loans and receivables) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

(ii) Reclassification

The Company and its subsidiaries may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Company and its subsidiaries may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Company and its subsidiaries have the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(iii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company and its subsidiaries commit to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company and its subsidiaries have transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

(iv) Measurement

At initial recognition, the Company and its subsidiaries measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at fair value through profit or loss' – in the consolidated statement of profit or loss within other gains, net.

- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income.

- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the Company and its subsidiaries' right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the finance income in the consolidated statement of profit or loss. Interest on available-for-sale securities and loans and receivables calculated using the effective interest method is recognised in the consolidated statement of profit or loss as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined are disclosed in Note 3.3.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforce right must not be contingent on future event and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Impairment of financial assets

The Company and its subsidiaries assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company and its subsidiaries may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 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.

2.17 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Company and its subsidiaries. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Company and its subsidiaries use alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated statement of profit or loss as part of a valuation gain or loss in 'other gains, net'.

2.18 Share capital

Ordinary shares are classified as equity (Note 35).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company's shares are acquired from the market under the employee share scheme, the total consideration of shares acquired from the market (including any directly attributable incremental costs) is presented as shares held for employee share scheme and deducted from total equity. Upon vesting, the related costs of the vested shares for employee share scheme purchased from the market are credited to shares held for employee share scheme, with a corresponding decrease in employee share-based compensation reserve for employee share scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of profit or loss as finance income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Company and its subsidiaries have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to the consolidated statement of profit or loss in the period in which they are incurred.

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.

2.22 Compound financial instruments

Compound financial instruments issued by the Company and its subsidiaries comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in other reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

The liability component of a convertible instrument is classified as current unless the Company and its subsidiaries have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.23 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 Company and its subsidiaries 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Leasing (Continued)

The Company and its subsidiaries as lessee

Assets held under finance leases are initially recognised as assets of the Company and its subsidiaries 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 Company and its subsidiaries' general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

Leasehold land and building

When a lease includes both land and building elements, the Company and its subsidiaries assess 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 Company and its subsidiaries, 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 land 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Company and its subsidiaries recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company and its subsidiaries' activities as described below. The Company and its subsidiaries base its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Company and its subsidiaries evaluate whether it is appropriate to record the gross amount of sales of goods and the related costs or the net amount earned as commission. When the Company and its subsidiaries have the primary responsibility for providing the goods to the customer or for fulfilling the order, is subject to inventory risk, has latitude in establishing prices and bears the customer's credit risk, or has several but not all of these indicators, revenues is recognised on a gross basis. When the Company and its subsidiaries do not have exposure to the significant risks and rewards associated with the sale of goods, revenues are recorded on a net basis.

Revenue from the sale of goods is recognised when 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.

(i) Revenue from sale of "Cloud"

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

(ii) Services of "Cloud"

Maintenance fees in relation to future technology business are recognised in the accounting period in which the services are rendered.

(iii) Revenue from provision of wifi network equipment and installation services

Revenue from provision of wifi network installation services is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the price specified in the sales contractsbasis of actual services provided as a proportion of the total service to be provided.

Revenue from wifi network equipment products are recognised when a group entity has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

(iv) Revenue from sale of chips

Revenue from sale of chips are recognised on a gross basis when the Company and its subsidiaries act as a principal and recognised when the customer has accepted the goods and the related risks and rewards of ownership.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Company and its subsidiaries reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.26 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company and its subsidiaries' consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.28 Government grants

Grants from the government are recognised at their fair values when there is a reasonable assurance that the grants will be received and the Company and its subsidiaries will comply with all attached conditions.

Government grants relating to costs are deferred and recognised within "other income" in the consolidated statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2.29 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as other payables in the consolidated statement of financial position.

(ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the consolidated statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 Employee benefits (Continued)

(iii) Post-employment obligations

The Company and its subsidiaries operate defined contribution pension plans.

The Company and its subsidiaries pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company and its subsidiaries have no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Company and its subsidiaries before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company and its subsidiaries recognise termination benefits at the earlier of the following dates: (a) when the Company and its subsidiaries can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.30 Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or equity directly, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.30 Taxation (Continued)

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and its subsidiaries and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Company and its subsidiaries are unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Company and its subsidiaries the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.31 Share-based payment arrangements

The Company and its subsidiaries operate a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Company and its subsidiaries. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Company and its subsidiaries revise its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

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 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.31 Share-based payment arrangements (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 Company and its subsidiaries 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company and its subsidiaries' major financial instruments include bank balances and cash, time deposit, structured bank deposit, trade and other receivables, loan receivables, derivative financial assets, trade and other payables, convertible debenture and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign exchange 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.

(a) Market risk

(i) Foreign exchange risk

The Company and its subsidiaries operates internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollars ("USD") and Chinese Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in currency that is not the entity's functional currency.

The Company and its subsidiaries' financial assets including trade and other receivables, loans receivables, time deposits, structured bank deposits and cash and cash equivalents, are substantially denominated in HK$, USD and RMB. The Company and its subsidiaries' financial liabilities including trade and other payables, deferred government grants and bank borrowings were substantially denominated in USD and RMB.

Since HK$ are pegged to the USD, management considers the foreign exchange risk of USD financial assets and liabilities to the Company and its subsidiaries is not significant.

As at 31 December 2017 and 2016, if RMB had strengthened/weakened by 5% against HK$ with all other variables held constant, the post-tax profit for the year would be higher/lower by approximately HK$15,000 (2016: HK$46,000) respectively, mainly as a result of foreign exchange gains/losses on translation of RMB-denominated net assets.

(ii) Interest rate risk

The Company and its subsidiaries' interest-rate risk arises from borrowings with variable rates. It is the Company and its subsidiaries' policy to keep certain of its borrowings at floating interest rates so as to reduce the fair value interest rate risk.

For the year ended 31 December 2017, a 100 basis points increase/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 with all other variables held constant, the Company and its subsidiaries' post-tax loss for the year would increase/decrease approximately HK$3,326,000 (2016: HK$2,641,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk (Continued)

The exposure of the Company and its subsidiaries' borrowing to interest rate changes and the contractual re-pricing dates of the borrowings at the end of the reporting period are as follows:

	2017 HK$	**% of total loans**	2016 HK$	% of total loans
Variable rate borrowings:				
6 months or less	**35,238**	**9%**	–	–
6 – 12 months	**–**	**–**	264,147	100%
1 – 5 years	**360,955**	**91%**	–	–
Over 5 years	**–**	**–**	–	–
	396,193	**100%**	264,147	100%

An analysis by maturities is provided in Note 3.1(c). The percentage of total loans shows the proportion of loans that are currently at variable rates in relation to the total amount of borrowings.

(iii) Price risk

The Company and its subsidiaries' exposure to equity securities price risk arises from investments held by the Company and its subsidiaries and classified in the consolidated statement of financial position either as available-for-sale.

Other components of equity would increase/decrease by approximately HK$151,257,000 as a result of 10% gains/losses on equity securities classified as available-for-sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

As at 31 December 2017, the Company and its subsidiaries' maximum exposure to credit risk which will cause a financial loss to the Company and its subsidiaries 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, management of the Company and its subsidiaries 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 Company and its subsidiaries review the recoverable amount of each individual trade receivable at the end of the reporting period to ensure that adequate provisions for impairment are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company and its subsidiaries' credit risk is maintained at a satisfactory level.

The Company and its subsidiaries' 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 Company and its subsidiaries have a concentration of credit risk at approximately 91% (2016: 100%) of the total trade debtors were due from the Company and its subsidiaries' five largest customers (2016: four). Trade debtors with overdue balances as at 31 December 2017 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 Company and its subsidiaries do not have any other significant concentration of credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

To manage liquidity risk, the Company and its subsidiaries monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Company and its subsidiaries' daily 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 Company and its subsidiaries' 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 Company and its subsidiaries can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

Specifically, for bank and other borrowing which contain a repayable on demand clause which can be executed at the bank and the borrower's sole discretion, the analysis shows the cash outflow based on the earliest date in which the Company and its subsidiaries can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

The table below analyses the Company and its subsidiaries' financial liabilities into relevant maturity groupings based on the remaining period at the end of the financial period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. As at 31 December 2017, bank borrowing of HK$35,238,000 was subject to a repayable on demand clause (2016: HK$264,147,000). Balances due within 12 months equal their carrying values as the impact of discounting is not significant.

The Company and its subsidiaries' exposure to equity securities price risk arises from investments held by the Company and its subsidiaries and classified in the consolidated statement of financial position either as available-for-sale or at fair value through profit or loss financial assets.

Other components of equity would increase/decrease by approximately HK$151,257,000 as a result of 10% gains/losses on equity securities classified as available-for-sale financial assets.

At 31 December 2017

	On demand HK$'000	Within 1 year HK$'000	2 to 5 Years HK$'000	More than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
Trade and other payables	–	98,288	–	–	98,288	98,288
Other borrowing	–	23,416	389,965	–	413,381	360,955
Bank borrowing	35,238	–	–	–	–	35,238
	35,238	121,704	389,965	–	511,669	494,481

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

At 31 December 2016

	On demand HK$'000	Within 1 year HK$'000	2-5 years HK$000	More than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
Trade and other payables	–	188,802	–	–	188,802	188,802
Convertible debenture	–	6,584	–	–	6,584	6,584
Bank borrowing	264,147	–	–	–	264,147	264,147
	264,147	195,386	–	–	459,533	459,533

The table below summarises the maturity analysis of bank and other borrowing (subjected to a repayable on demand clause) based on scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. Taking into account the Company and its subsidiaries' financial position, the directors do not consider that it is probable that the borrowers will exercise its discretion to demand immediate repayment. The directors believe that such bank and other borrowing will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity analysis – bank and other borrowings based on agreed scheduled repayments		
	Less than 1 year HK$'000	**Between 1 and 5 years** HK$'000	**Over 5 years** HK$'000
At 31 December 2017			
Bank borrowing	**–**	**–**	**35,238**
At 31 December 2016			
Bank borrowing	264,147	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management

The Company and its subsidiaries manage its capital to ensure that the group companies will be able to continue as a going concern while maximising the return to shareholders through the optimisation of debt and equity balance. The Company and its subsidiaries' overall strategy remains unchanged from prior year.

The Company and its subsidiaries monitors capital on the basis of the gearing ratio. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank and other borrowings and convertible debenture as shown in the consolidated statement of financial position) less bank balances and cash. Total capital is calculated as "Total Equity", as shown in the consolidated statements of financial position, plus net debt. As at 31 December 2017 and 2016, the Company and its subsidiaries was in a net cash position, whereas the Company and its subsidiaries' gearing ratio is calculated as net debt divided by total capital.

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 Company and its subsidiaries will balance their overall capital structure through new share issues as well as raising of new borrowings and repayment of existing borrowings.

3.3 Fair value estimation

(a) Financial assets and liabilities

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company and its subsidiaries have classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements

	Notes	**Level 1** HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
At 31 December 2017					
Financial assets					
Available-for-sale financial assets	23	–	1,420,811	97,761	1,518,572
At 31 December 2016					
Financial assets					
Available-for-sale financial asset		–	–	29,040	29,040
Derivative financial assets	24	–	791,238	7,674	798,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(i) Fair value hierarchy (Continued)

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company and its subsidiaries are the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(ii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for years ended 31 December 2017 and 2016:

	Available-for-sale financial assets		Right to subscribe for convertible securities		Share swap		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**29,040**	29,040	**–**	31,184	**7,674**	20,116	**36,714**	80,340
Addition	**91,757**	–	**–**	–	**–**	–	**91,757**	–
Fair value change recognised in the consolidation statement of profit or loss	**–**	–	**–**	7,436	**–**	9,954	**–**	17,390
Impairment	**(23,270)**	–	**–**	–	**–**	–	**(23,270)**	–
Currency transfer difference	**234**	–	**–**	–	**–**	–	**234**	–
Derecognised upon exercise or expiry of underlying options	**–**	–	**–**	(38,620)	**(7,674)**	(22,396)	**(7,674)**	(61,016)
At 31 December	**97,761**	29,040	**–**	–	**–**	7,674	**97,761**	36,714

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(iii) Valuation inputs and relationships to fair value

Financial instruments	Fair value as at 31 December 2017 HK$'000	Fair value as at 31 December 2016 HK$'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input(s) 31 December 2017	Significant unobservable input(s) 31 December 2016
1) Share swap classified as derivative financial assets in the consolidated statement of financial position	–	7,674	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	N/A	Volatility: 37.94% Perpetual growth rate: 2% discount rate of MACL: 22.18% discount rate of the Hong Kong company formed with MACL: 23% Correlation co-efficient: 0.9
2) Right to subscribe for Shares of Kuang-Chi Technologies Co., Ltd. ("KCT", formerly known as Zhejiang Longsheng Auto Parts Co., Ltd. classified as derivative financial assets in the consolidated statement of financial position	–	791,238	Level 2	Black-Scholes Formula is adopted and the key inputs are the share price of KCT, the volatilities of the assets and the risk free rate and the marketability discount rate	N/A	Volatility: 65% Marketability discount rate: 36%
3) Investment in KCT classified as available-for-sale financial assets in the consolidated statement of financial position	1,420,811	–	Level 2	Fair value is estimated on basis of the quoted market price and adjusted for trading suspension as at 31 December 2017	N/A	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(iii) Valuation inputs and relationships to fair value (Continued)

Financial instruments	Fair value as at 31 December 2017 HK$'000	Fair value as at 31 December 2016 HK$'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input(s) 31 December 2017	Significant unobservable input(s) 31 December 2016
4) Investment in Gilo Industries Group Ltd. ("Gilo") classified as available-for-sale financial assets in the consolidated statement of financial position	**91,757**	–	Level 3	Discounted cash flow model is adopted and the key inputs are revenue growth rate, terminal growth rate and discount rate	**Revenue growth rate ranging from 28% to 33% Terminal growth rate of 5% Discount rate of 8%**	N/A

Certain of the financial instruments are measured at fair value for financial reporting purposes. The board of directors of the Company has set up a valuation team headed 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 Company and its subsidiaries use market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company and its subsidiaries engaged independent 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 fair values.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(b) Non-financial asset

(i) Fair value hierarchy

This Note explains the judgements and estimates made in determining the fair values of the non-financial assets that are recognised and measured at fair value in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company and its subsidiaries have classified its non-financial assets and liabilities into the three levels prescribed under the accounting standards. An explanation of each level is provided in Note 3.3(a).

	Note	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2016					
Investment property	21	–	–	13,800	13,800

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year.

The fair value of the Company and its subsidiaries' investment property at 31 December 2016 has been arrived at based on a valuation performed by Grant Sherman Appraisal Limited, an independent qualified professional valuer that is not connected to the Company and its subsidiaries.

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 Company and its subsidiaries' 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(b) Non-financial asset (Continued)

(i) Fair value hierarchy (Continued)

The fair value measurements for the Company and its subsidiaries' investment property is categorised as level 3. The following table provides information about how the fair values of the investment property as at 31 December 2016 are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised level 3 based on the degree to which the inputs to the fair value measurements is observable.

Property	Fair value hierarchy	Valuation technique & key input	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Property – located in Hong Kong Island, Hong Kong	Level 3	Direct comparison method The key input is price per square foot	Price per square foot, using market direct comparable and taking into account of location and other individual factors such as age and location of the property, of HK$14,823 per square foot as at 31 December 2016	A slight increase in the price per square foot will increase significantly the fair value

4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Company and its subsidiaries' accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Recoverability and estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Company and its subsidiaries take 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 2017, the carrying amount of trade receivable is HK$333,940,000 (2016: HK$326,994,000). Despite the lack of repayment track record, management considered there are no further impairment 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 2017

4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(b) Estimation of impairment of goodwill and intangible assets

The Company and its subsidiaries test whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit ("CGU") is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 19.

(c) Fair values of available-for-sale financial assets

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company and its subsidiaries use its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see Note 3.3a(iii).

5 REVENUE

An analysis of the Company and its subsidiaries' revenue for the year is as follows:

	2017 **HK$'000**	2016 HK$'000
Sales of "Cloud"	**252,596**	284,050
"Cloud" maintenance services	**4,941**	6,082
Sales of chips	**40,412**	–
Provision of wifi network equipment and installation services	**8,213**	–
Rental income *(Note 21)*	**30**	360
	306,192	290,492

6 SEGMENT INFORMATION

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Company and its subsidiaries 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.

After the discontinuation of paper business during the year ended 31 December 2016, 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 Company and its subsidiaries on a consolidated basis. Therefore, the operation of the Company and its subsidiaries constitute one single reportable segment and no further analysis of segments is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6 SEGMENT INFORMATION (Continued)

Geographical information

The Company and its subsidiaries operate in four principal geographical areas – the People's Republic of China (excluding Hong Kong) ("PRC"), Hong Kong, New Zealand and Canada.

Information about the Company and its subsidiaries' revenue from external customers is presented based on the location of the goods delivered. Information about the Company and its subsidiaries' non-current assets is presented based in the geographical locations of the assets.

	Revenue from external customers		**Non-current assets***	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**265,750**	290,132	**328,944**	215,652
Hong Kong	**40,442**	360	**1,210**	16,329
New Zealand	**–**	–	**12,060**	187,947
Canada	**–**	–	**15,956**	108,612
	306,192	290,492	**358,170**	528,540

* Non-current assets exclude financial instruments, derivative financial assets, available-for-sale financial assets, investment in an associate and partial long-term deposits, prepayments and other receivables.

Information about major customers

Revenues from customers contributing over 10% of the total sales of the Company and its subsidiaries for the years ended 31 December 2017 and 2016:

	2017	2016
	HK$'000	HK$'000
Customer 1	**135,568**	N/A#
Customer 2	**116,197**	N/A#
Customer 3	**N/A#**	142,025
Customer 4	**N/A#**	142,025

The corresponding revenue did not contribute over 10% of the total revenue of the Company and its subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

7 OTHER INCOME

	2017 HK$'000	2016 HK$'000
Government grants	**69,378**	35,438
Sundry income	**489**	4,555
	69,867	39,993

8 OTHER GAINS, NET

	2017 HK$'000	2016 HK$'000
Fair value changes of derivative financial assets (Note 24)	**616,404**	(212,523)
Exchange gain/(loss), net	**8,842**	(4,203)
Gain on disposal of a subsidiary (Note 39)	**84**	–
Loss on disposal of plant and equipment (Note 41(b))	**(350)**	(737)
Loss on derecognition of swap right (Note 24)	**(7,674)**	–
Loss on deemed disposal of a subsidiary (Note 40)	**(18,091)**	–
Impairment on available-for-sale financial assets (Note 23)	**(23,270)**	–
Gain on initial recognition of subscription right of Kuang-Chi Technologies Co., Ltd. (KCT) shares (Note 24)	**–**	1,021,151
Gain on deemed disposal of an investment in an associate	**–**	13,181
Fair value changes of investment property (Note 21)	**–**	100
Others	**363**	–
	576,308	816,969

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

9 OPERATING PROFIT

Operating profit has been arrived at after charging:

	2017 HK$'000	2016 HK$'000
Employee benefit expenses (Note 10)	**227,361**	123,548
Cost of inventories sold (Note 27)	**176,551**	85,198
Advertising expenses	**8,002**	18,965
Amortisation of intangible assets (Note 18)	**5,314**	14,444
Amortisation of prepaid land lease payments (Note 25)	**2,283**	2,302
Auditor's remuneration		
– Audit services	**2,700**	2,380
Depreciation of property, plant and equipment (Note 17)	**51,092**	10,226
Operating lease rental on land and buildings	**16,834**	9,558
Provision for impairment of loan receivables (Note 29)	**24,746**	–
Provision for doubtful receivables (Note 28)	**23,993**	–
Impairment of prepayment and other receivables (Note 28)	**5,140**	–
Impairment of property, plant and equipment (Note 17)	**1,230**	–

10 EMPLOYEE BENEFIT EXPENSES

	2017 HK$'000	2016 HK$'000
Salaries, wages and other benefits	**180,132**	159,607
Retirement benefits scheme	**20,156**	14,439
Share options granted to directors and employees	**33,188**	63,126
	233,476	237,172
Less: capitalised portion	**(6,115)**	(113,624)
	227,361	123,548

	2017 HK$'000	2016 HK$'000
Represented in		
– Selling and distribution expenses	**29,340**	17,250
– Research and development expenses	**121,681**	46,412
– Administrative expenses	**76,340**	59,886
	227,361	123,548

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

10 EMPLOYEE BENEFIT EXPENSE (Continued)

Five highest paid individuals

The five individuals whose emoluments were the highest in the Company and its subsidiaries for the year included three (2016: two) directors are reflected in the analysis shown in Note 12. The emoluments payable to the remaining two (2016: three) individuals, who are neither a director nor chief executive of the Company, during the year are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other allowances	2,696	2,317
Performance related bonuses	–	849
Share based payments	–	16,463
	2,696	19,629

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:

	Number of Individuals	
	2017	2016
Less than HK$2,000,000	2	–
HK$2,000,001 to HK$2,500,000	–	1
HK$7,000,001 to HK$7,500,000	–	1
HK$10,000,001 to HK$10,500,000	–	1
	2	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

11 FINANCE (COSTS)/INCOME, NET

	2017 HK$'000	2016 HK$'000
Finance income		
Interest income:		
– Short term and time deposits	**10,446**	12,490
– Loans to third parties	**1,677**	2,263
– Loan to a related party (Note 44)	**1,741**	570
	13,864	15,323
Finance costs		
Interest expenses:		
– Bank and other borrowings	**(27,530)**	(3,382)
– Convertible debenture	**(37)**	(744)
	(27,567)	(4,126)
Amounts capitalised (Note)	**6,151**	–
Finance costs	**(21,416)**	(4,126)
Finance (costs)/income, net	**(7,552)**	11,197

Note:

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 4.71%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

12 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of each director and chief executive is set out below.

For the year ended 31 December 2017

	Fee payment HK$'000	Salary and other allowance HK$'000	Bonus HK$'000	Retirement benefits scheme contributions HK$'000	Share-based payment HK$'000	Total HK$'000
Executive Directors						
Dr. Liu Ruopeng ("Dr. Liu R.")	923	–	694	–	–	1,617
Dr. Zhang Yangyang	865	–	347	–	3,622	4,834
Dr. Luan Lin	808	–	463	–	2,813	4,084
Mr. Dorian Barak	1,068	–	–	–	–	1,068
Non-executive Directors						
Mr. Ko Chun Shun, Johnson*	–	–	–	–	–	–
Mr. Song, Dawei @	229	–	–	–	–	229
Independent Non-executive Directors						
Dr. Liu Jun	250	–	–	–	–	250
Dr. Wong Kai Kit	250	–	–	–	–	250
Ms. Cao Xinyi	250	–	–	–	–	250
	4,643	–	1,504	–	6,435	12,582

@ appointed on 1 February 2017

* re-designated from an executive director to a non-executive director with effect from 16 May 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

12 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2016

	Fee payment 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

During the years ended 31 December 2017 and 2016, no amount was paid in respect of Mr. Ko Chun Shun, Johnson's directorship.

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

Dr. Zhang Yangyang and Dr. Luan Lin are the chief executives of the Company and their emoluments include their roles as chief executives.

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

Neither the chief executive nor any of the directors waived or agreed to waive any emoluments during the years ended 31 December 2017 and 2016.

The executive directors are entitled to bonus for the year ended 31 December 2017 and 2016 which is determined with reference to the performance of the Company and its subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

12 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' and chief executive's emoluments (Continued)

No emoluments have been paid by the Company and its subsidiaries to any of the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Company and its subsidiaries or as compensation for loss of office during the year (2016: Nil).

(b) Directors' retirement benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2016: Nil).

(c) Consideration provided to third parties for making available directors' services

During the year, the Company did not pay consideration to any third parties for making available directors' services (2016: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans and other dealing arrangements in favour of the directors, or controlled bodies corporate by and connected entities with such directors (2016: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

Save as disclosed in Note 44, no other transactions, arrangements and contracts of significance in relation to the Company and its subsidiaries' business to which the Company's subsidiary was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the years or at any time during the years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

13 DISCONTINUED OPERATION

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

The loss for the year ended 31 December 2016 from the discontinued paper business operation is set out below. The comparative figures in the consolidated statement of profit or loss has been restated to re-present the paper business operation as a discontinued operation.

	2016 HK$'000
Loss of paper business operation for the period	(2,703)
Gain on disposal of paper business operation	2,213
	(490)

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, were as follows:

	Period ended 26 October 2016 HK$'000
Revenue	55,649
Cost of sales	(45,122)
Other gain and loss	20
Gain from disposal of paper business	2,213
Distribution and selling expense	(2,758)
Administrative expense	(10,492)
Loss for the period	(490)
Net operating cash inflow	3,581
Net investing cash outflow	(535)
Net financing cash outflow	(233)
Net cash inflow	2,813

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

14 INCOME TAX EXPENSE

This note provides an analysis of the Company and its subsidiaries' income tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Company and its subsidiaries' tax position.

	2017	2016
	HK$'000	HK$'000
Current income tax		
PRC Corporate Income Tax		
– Current period	**6,511**	21,757
– Under-provision in prior years	**253**	–
	6,764	21,757
Deferred income tax (Note 34)	**92,461**	118,673
	99,225	140,430

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the year (2016: 16.5%).

PRC subsidiaries are subject to PRC Corporate Income Tax ("CIT") at 25% normally except for a PRC subsidiary established in Qianhai and another PRC subsidiary under High and New Technology Enterprise that are subject to a reduced preferential CIT rate of 15% for 3 years from 2016 to 2019 according to the applicable CIT Law.

Prima facie tax in New Zealand is calculated at a rate of 28% of the estimated assessable profit for the year ended 31 December 2017 (2016: 28%). Statutory tax in Canada is calculated at a rate of 15.5% of the estimated assessable profit for the year ended 31 December 2017 (2016: 15.5%). No current tax was provided in these jurisdictions for the year ended 31 December 2017 as there were no assessable profit (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

14 INCOME TAX EXPENSE (Continued)

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

	2017 **HK$'000**	2016 HK$'000
Profit before tax	**32,613**	737,464
Tax at Hong Kong tax rate of 16.5%	**5,381**	121,682
Tax effect of different tax rates of subsidiaries operations in other jurisdictions and region	**(37,881)**	(10,911)
Expenses not deductible for tax purposes	**96,764**	24,233
Income not taxable for tax purposes	**(19,016)**	(7,112)
Tax losses not recognised	**53,724**	13,845
Utilisation of tax losses previously not recognised	**–**	(1,307)
Under-provision in prior years	**253**	–
	99,225	140,430

15 EARNINGS PER SHARE

For continuing operations and discontinued operation

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:

	2017 **HK$'000**	2016 HK$'000
Profit for the year attributable to owners of the Company	**66,051**	664,315
Add: Loss for the year from discontinued operation	**–**	490
Earnings for the purpose of basic earnings per share from continuing operations	**66,051**	664,805
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	**–**	(17,672)
Earnings for the purpose of diluted earnings per share from continuing operations	**66,051**	647,133

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

15 EARNINGS PER SHARE (Continued)

From continuing and discontinued operations (Continued)

	2017	2016
Number of shares (in thousands)		
Weighted average number of ordinary shares for the purpose of basic earnings per share	6,110,545	5,864,344
Effect of dilutive potential ordinary shares:		
Preferred shares	–	225,057
Share options of the Company	27,677	53,924
Weighted average number of ordinary shares for the purpose of diluted earnings per share	6,138,222	6,143,325

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:

	2017 HK$'000	2016 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share	66,051	664,315
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	–	(17,672)
Earnings for the purpose of diluted earnings per share from continuing operations	66,051	646,643

Basic earnings per share ("EPS") is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

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

In addition, the preferred shares granted by the Company's non-wholly owned subsidiaries and associates, and the convertible bonds of the subsidiaries could have potential dilutive effect on the EPS. During the year ended 31 December 2017, these share options, preferred shares and convertible bonds had anti-dilutive effect to the Company and its subsidiaries and associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

16 DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

17 PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Furniture and fixture HK$'000	Office equipment HK$'000	Leasehold improvement HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2016	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	–	–	408	1,547	–	–	1,955
Disposals	–	–	–	–	–	(8,873)	(8,873)
Disposal through disposal of a subsidiary	(23,159)	(8,059)	–	–	(2,131)	–	(33,349)
Currency translation differences	(520)	(347)	(222)	7	(307)	(4,539)	(5,928)
At 31 December 2016 and 1 January 2017	47,715	561	10,133	7,079	5,846	90,739	162,073
Additions	4,546	17	8,823	5,439	634	125,189	144,648
Transferred to plant and machinery	33,679	–	–	–	–	(33,679)	–
Disposals (Note 41(b))	(118)	–	(356)	(405)	(606)	–	(1,485)
Disposal through deemed disposal of a subsidiary	(24,067)	–	(1,662)	(440)	–	–	(26,169)
Currency translation differences	3,771	39	675	453	354	9,184	14,476
At 31 December 2017	65,526	617	17,613	12,126	6,228	191,433	293,543
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2016	8,566	743	2,292	289	1,756	–	13,646
Depreciation (Note 9)	4,385	792	1,621	1,562	1,866	–	10,226
Disposal through disposal of a subsidiary	(7,582)	(1,247)	–	–	(1,575)	–	(10,404)
Currency translation differences	(612)	(46)	(49)	(1)	(122)	–	(830)
At 31 December 2016 and 1 January 2017	4,757	242	3,864	1,850	1,925	–	12,638
Depreciation (Note 9)	40,452	178	6,195	3,137	1,130	–	51,092
Disposals (Note 41(b))	(72)	–	–	–	(28)	–	(100)
Disposal through deemed disposal of a subsidiary	(1,146)	–	(310)	(440)	–	–	(1,896)
Provision for impairment (Note 9)	1,230	–	–	–	–	–	1,230
Currency translation differences	1,687	21	238	81	143	–	2,170
At 31 December 2017	46,908	441	9,987	4,628	3,170	–	65,134
CARRYING VALUES							
At 31 December 2017	18,618	176	7,626	7,498	3,058	191,433	228,409
At 31 December 2016	42,958	319	6,269	5,229	3,921	90,739	149,435

Construction in progress as at 31 December 2017 and 31 December 2016 mainly represents building under construction for research and development purpose and for use as an office.

During the year ended 31 December 2017, included in the depreciation of HK$38,272,000 represented one-off accelerated depreciation charged on a machinery. The economic benefit of the machinery was substantially consumed upon an experimental test.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

18 INTANGIBLE ASSETS AND GOODWILL

	Goodwill HK$'000	Capitalised development cost HK$'000	Software HK$'000	Technical knowhow and patents HK$'000	Total HK$'000
COST					
At 1 January 2016	155,800	38,214	3,184	115,134	312,332
Acquisition of a subsidiary	9,199	–	–	6,946	16,145
Additions	–	69,685	1,877	509	72,071
Disposal of a subsidiary	(84,054)	–	–	–	(84,054)
Currency translation differences	–	(51)	650	2,629	3,228
At 31 December 2016 and 1 January 2017	80,945	107,848	5,711	125,218	319,722
Additions	–	25,091	47	241	25,379
Deemed disposal of a subsidiary	(39,382)	(28,554)	–	(47,436)	(115,372)
Currency translation differences	65	1,199	(1)	858	2,121
At 31 December 2017	41,628	105,584	5,757	78,881	231,850
ACCUMULATED AMORTISATION AND IMPAIRMENT					
At 1 January 2016	84,054	–	657	8,405	93,116
Amortisation (Note 9)	–	–	2,553	11,891	14,444
Provision for impairment	39,382	–	–	–	39,382
Disposal of a subsidiary	(84,054)	–	–	–	(84,054)
Currency translation differences	–	–	607	137	744
At 31 December 2016 and 1 January 2017	39,382	–	3,817	20,433	63,632
Amortisation (Note 9)	–	–	540	4,774	5,314
Deemed disposal of a subsidiary	(39,382)	–	–	(7,710)	(47,092)
Provision for impairment	32,364	106,006	1,407	55,378	195,155
Currency translation differences	–	(422)	(7)	(168)	(597)
At 31 December 2017	32,364	105,584	5,757	72,707	216,412
CARRYING VALUES					
At 31 December 2017	9,264	–	–	6,174	15,438
At 31 December 2016	41,563	107,848	1,894	104,785	256,090

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18 INTANGIBLE ASSETS (Continued)

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

Amortisation of HK$5,314,000 (2016: HK$14,444,000) is included in the consolidated statement of profit or loss within the 'Research and development expenses'.

Capitalised development cost represents development costs incurred which 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 TEST FOR GOODWILL AND INTANGIBLE ASSETS

For the purposes of impairment testing, goodwill, capitalised development, technical know how and patents have been allocated to three individual CGU, being three 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), capitalised development and technical knowhow and patents as at 31 December 2017 and 2016 allocated to these three CGUs are as follows:

	Goodwill		Capitalised development		Technical knowhow and patents	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Jetpack CGU	**–**	32,364	**–**	80,593	**–**	58,495
Aircrafts CGU	**–**	–	**–**	27,255	**–**	39,200
SkyX CGU	**9,264**	9,199	**–**	–	**5,870**	6,821
	9,264	41,563	**–**	107,848	**5,870**	104,516

The recoverable amount of the CGUs are determined based on value-in-use ("ViU") calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five-year period are extrapolated using the perpetual growth rates. Management estimates the pre-tax discount rate that reflects market assessment of the time value of money and specific risk relating to the industry.

Jetpack CGU

During the year ended 31 December 2017, management of the Company and its subsidiaries recognised provision for impairment of approximately HK$32,364,000 and approximately HK$162,791,000 to the goodwill and intangible assets of the Jetpack CGU respectively (2016: Nil).

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For the year ended 31 December 2017

19 IMPAIRMENT TEST FOR GOODWILL AND INTANGIBLE ASSETS (Continued)

In April 2017, MACL commenced product flight testing in respect of its jetpack products as the market is demanding for jetpack products that are certified. The current engine in MACL's jetpack products has proved sufficient for testing and demonstration purposes. However, after the flight test, the MACL management was of the view that the jetpack may not be able to obtain the relevant certification without further investment in improving the existing engine or adopting an alternative proven engine. This has resulted in greater uncertainty for funding of the commercial pathway given the existing financing means of MACL and the expected costs to complete the jetpack products. As such, provision for impairment was made to the relevant goodwill and intangible assets.

During the year ended 31 December 2017, the MACL management used ViU valuation methodology to determine its recoverable amount. Details and key assumptions of the impairment assessment, including but not limited to the growth rate and discount rate used in the valuation, MACL's publication on the Australian Securities Exchange can be assessed via https://www.asx.com.au/index.htm for the full report.

The ViU valuation methodology is developed through the application of the income approach technique known as the discounted cash flow ("DCF') method. Given the nature of the jetpack products in development phrase and the sector in which the Company and its subsidiaries operate, significant judgement is therefore required in determining inputs to the DCF valuation methodology.

The Company has engaged an independent valuer that is not connected with the Company and its subsidiaries to review the valuation model and assumptions adopted by the MACL management. Based on the assessment performed, the Board of the Company recognised a provision for impairment of goodwill and intangible assets related to the Jetpack CGU.

Aircrafts CGU

As disclosed in Note 40, Solar Ship was derecognised as a subsidiary and became an associate of the Company on 15 January 2017, hence the corresponding intangible assets had been deconsolidated since then.

SkyX CGU

The recoverable amount of the CGU is determined based on a ViU valuation methodology which uses cash flow projection based on financial budgets approved by the directors of the Company covering a five-year period, and a pre-tax discount rate of 28.71% per annum.

Assumed growth rate is used to extrapolate the cash flows in the following years. The financial budgets are prepared based on a five-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments and achievement of business targets. The financial model assumes an average growth rate of 2% per annum beyond the five-year period taking into account of long term gross domestic product growth, inflation rate and other relevant economic factors.

The directors assessed that no provision for impairment was recognised for the year ended 31 December 2017 as the recoverable amounts exceeded the carrying amounts, and the directors of the Company believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the CGUs to exceed the their recoverable amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

20 FINANCIAL INSTRUMENTS BY CATEGORY

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables at amortised cost (including cash and cash equivalents)	**1,332,885**	1,650,091
Available-for-sale financial assets	**1,518,572**	29,040
Derivatives financial assets	**–**	798,912
	2,851,457	2,478,043
Financial liabilities		
Liabilities at amortised cost		
Bank and other borrowings	**396,193**	264,147
Trade and other payables	**98,288**	188,802
Convertible debenture	**–**	6,584
	494,481	459,533

21 INVESTMENT PROPERTY

	HK$'000
Fair value	
At 1 January 2016	13,700
Fair value changes recognised in the consolidated statement of profit or loss (Note 8)	100
At 31 December 2016 and 1 January 2017	13,800
Disposal of a subsidiary	(13,800)
At 31 December 2017	–

At 31 December 2016, no investment property held by the Company and its subsidiaries was pledged. The investment property represented a residential premises located in Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

21 INVESTMENT PROPERTY (Continued)

(i) Amounts recognised in profit and loss for the investment property

	2017 HK$'000	2016 HK$'000
Rental income (Note 5)	**30**	360
Direct operating expenses from property that generated rental income	**–**	(13)
Fair value changes recognised in the consolidated statement of profit or loss (Note 8)	**–**	100
	30	447

For the fair value estimation of the investment property, please refer to Note 3.3(b)(i) for the details.

22 INVESTMENTS IN ASSOCIATES

Details of the Company and its subsidiaries' associates at the end of the reporting period are as follow:

Name of entity	Country of incorporation/ registration and Principal place of business	Interest held as at 31 December		Principal activity	Carrying amount	
		2017	2016		**2017 HK$'000**	2016 HK$'000
Agent Video Intelligence Ltd. ("Agent VI") (Note a)	Israel	**25.37%**	26.81%	Development of video analytics solutions	**27,582**	33,166
Solar Ship Inc. ("Solar Ship") (Note b)	Canada	**37.77%**	37.77%	Development and commercialisation of solar power aircrafts	**–**	N/A
					27,582	33,166

(a) In September 2016, the Company and Agent VI entered into a preferred share purchase agreement ("Agent PSP Agreement"), pursuant to which the Company acquired 12,215,909 preferred shares of Agent VI, and shall have the right to purchase additional preferred shares which is limited to 35% of preferred shares purchased upon exercise (the "Warrants").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

22 INVESTMENTS IN ASSOCIATES (Continued)

(a) (Continued)

The 12,215,909 preferred shares held by the Company are currently convertible into 12,215,909 ordinary shares of Agent VI, subject to anti-dilution adjustments. The Company will hold 25.37% of the ordinary share capital of Agent VI at 31 December 2017. Upon exercising of the Warrants, the Company's shareholding increase to approximately 31.5%, based on the number of ordinary and preferred shares in issue as at 31 December 2017.

	2017	2016
	HK$'000	HK$'000
Agent VI		
At 1 January	**33,166**	–
Addition	**–**	33,343
Share of loss and other comprehensive losses	**(5,687)**	(177)
Currency translation differences	**103**	–
At 31 December	**27,582**	33,166

(b) The Company subscribed for 79,070 ordinary share of Solar Ship during the year ended 31 December 2015, representing approximately 37.77% of the outstanding ordinary shares of Solar Ship. The Company also entered into an option agreement with Solar Ship, pursuant to which the Company was granted the option to subscribe for additional 116,279 ordinary shares of Solar Ship. This would increases the Company's equity interest in Solar Ship to 54.42%.

On 15 January 2017, the option expired and the Company did not exercise the option to subscribe for the additional shares. The investment in Solar ship then became an associate of the Company.

Full provision for impairment on investment in Solar Ship of HK$8,933,000 was made during the year ended 31 December 2017. Further financing is required to be obtained by the aforesaid investment to meet its development and business plan. After discussion and preliminary assessment by the Board with reference to the latest available information, the Company makes a full provision for impairment on the investment. The loans provided by the Company and its subsidiaries to Solar Ship of approximately HK$22,378,000 (Note 29) are also impaired in year ended 31 December 2017.

	2017	2016
	HK$'000	HK$'000
Solar Ship		
At 1 January	**–**	–
Derecognition from a subsidiary to an associate	**28,701**	–
Share of loss and other comprehensive losses	**(19,768)**	–
Provision for impairment	**(8,933)**	–
At 31 December	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

23 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 HK$'000	2016 HK$'000
Listed security:		
– Equity security (Note a)	1,420,811	–
Unlisted securities:		
– Equity securities	121,031	29,040
Less: provision for impairment (Note b)	(23,270)	–
	97,761	29,040
	1,518,572	29,040

Available-for-sale financial assets are denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
RMB	1,426,815	5,770
British Sterling ("GBP")	91,757	–
USD	–	23,270
	1,518,572	29,040

Note:

(a) Upon the completion of subscription on 13 February 2017, the Company and its subsidiaries hold 3.32% of the ordinary shares of KCT, while Shenzhen Kuang-Chi Hezhong Technology Limited, which is partially owned by the directors of the Company, Dr. Liu R. and Dr. Luan with shareholding of 35.09% and 15.79% respectively, holds more than 5% of the shareholding of KCT.

(b) An equity security is considered to be impaired if there has been a significant or prolonged decline in the fair value below its cost. See Note 2.13 for further details about the Company and its subsidiaries' impairment policies for financial assets.

During the year ended 31 December 2017, provisions for impairment were made to the investment in Beyond Verbal of HK$23,270,000 and a loan to Beyond Verbal of HK$2,368,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

24 DERIVATIVE FINANCIAL ASSETS

	2017 HK$'000	2016 HK$'000
Share swap	–	7,674
Right to subscribe for shares	–	791,238
	–	798,912

	Share swap HK$'000 (Note a)	Right to subscribe for convertible securities HK$'000	Right to subscribe for shares HK$'000 (Note b)	Total HK$'000
At 1 January 2016	20,116	31,184	–	51,300
Recognition of subscription right	–	–	1,021,151	1,021,151
Fair value changes recognised in the consolidated statement of profit or loss	9,954	7,436	(229,913)	(212,523)
Derecognised upon exercise of underlying options	(22,396)	(38,620)	–	(61,016)
At 31 December 2016 and 1 January 2017	7,674	–	791,238	798,912
Fair value changes recognised in the consolidated statement of profit or loss	–	–	616,404	616,404
Loss on derecognised upon expiry of underlying options	(7,674)	–	–	(7,674)
Derecognised upon exercise of subscription right	–	–	(1,419,691)	(1,419,691)
Currency translation differences	–	–	12,049	12,049
At 31 December 2017	–	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

24 DERIVATIVE FINANCIAL ASSETS (Continued)

Notes:

(a) During the year ended 31 December 2017, the Company did not exercise the remaining 10% of the Swap Right on 22 August 2017.

(b) On 25 March 2015, the Company and its subsidiaries entered into a subscription agreement with Kuang-Chi Technologies Co., Ltd. ("KCT", formerly known as "Zhejiang Longsheng Auto Parts Co., Ltd. (浙江龍生汽車部件股份有限公司)), which is a company listed on the Shenzhen Stock Exchange. Pursuant to the subscription agreement, KCT conditionally agreed to issue, and the Company and its subsidiaries conditionally agreed to subscribe for 42,075,736 new shares of KCT at a consideration of approximately HK$345,000,000. On 11 November 2016, the Company and its subsidiaries obtained the approval from the China Securities Regulatory Commission for the subscription and the subscription right was then recognised as a derivative financial asset measured at fair value through profit or loss. As it was not a publicly traded financial instrument, a marketability discount rate applied when determining its fair value.

After satisfying all the conditions of the subscription agreement, the Company and its subsidiaries completed the subscription on 13 February 2017. As at 13 February 2017, the fair value of the derivative financial asset was approximately HK$1,419,691,000 and a fair value gain of approximately HK$616,404,000 was recognised in the consolidated statement of profit or loss upon subscription.

Subsequent to the completion of subscription on 13 February 2017, the Company and its subsidiaries held approximately 3.32% of the equity interest of KCT. The directors of the Company consider there is no significant influence over KCT and no right to appoint any director in KCT, so the investment in KCT was classified as available-for-sale financial assets.

Fair value measurement

For information about the method and assumptions used in determining the fair value of derivative financial assets, please refer to Note 3.3.

25 PREPAID LAND LEASE PAYMENTS

	2017 **HK$'000**	2016 HK$'000
At 1 January	**85,785**	94,106
Amortisation (included in administrative expenses) (Note 9)	**(2,283)**	(2,303)
Currency translation differences	**6,398**	(6,018)
At 31 December	**89,900**	85,785

At 31 December 2017 and 2016, the prepaid land lease payments represented 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.

As at 31 December 2017, the prepaid leased land of HK$89,900,000 (2016: Nil) was pledged against the bank and other borrowings of the Company and its subsidiaries (Note 32).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

26 CASH AND CASH EQUIVALENTS, TIME AND STRUCTURED BANK DEPOSITS

	2017 HK$'000	2016 HK$'000
Cash and cash equivalents	**787,477**	870,558
Time deposit (Note a)	**180,120**	252,005
Structured bank deposit (Note b)	**–**	13,397
	967,597	1,135,960

Notes:

(a) As at 31 December 2017, interest rates over the time deposit ranged from 1.58% to 2.15% (2016: 1.43%) per annum and has an original maturity of more than three months. The time deposit will mature within one year.

(b) During the year ended 31 December 2016, the Company and its subsidiaries entered into a structured contract with a bank in the PRC with a principal sum of 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 Company and its subsidiaries 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. Management considered the fair value of the embedded derivative in the structured bank deposit as of the same date was insignificant.

The Company and its subsidiaries' cash and cash equivalents, time and structured bank deposits are denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
RMB	**346,434**	371,755
USD	**421,382**	513,279
HKD	**133,764**	112,158
NZD	**21,716**	93,267
Canadian dollars ("CAD")	**35,448**	45,501
Others	**8,853**	–
	967,597	1,135,960

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

27 INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**20,472**	22,339
Finished goods	**–**	126,971
	20,472	149,310

(i) Assigning costs to inventories

The costs of individual items of inventory are determined using first-in-first-out method.

(ii) Amount recognised in profit or loss

Inventories recognised as an expense during the year ended 31 December 2017 amounted to HK$176,551,000 (2016: HK$85,198,000) which were included in cost of sales in the consolidated statement of profit or loss.

28 TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables (Note a)	**358,856**	326,994
Less: provision for doubtful receivables	**(24,916)**	–
Trade receivables, net	**333,940**	326,994
Deposits and other receivables	**17,893**	11,948
Interest receivables	**4,096**	4,049
Prepayment for advertising	**5,664**	10,971
Prepayments to suppliers	**38,282**	42,870
Earnest monies paid (Note b)	**–**	126,354
Prepaid consultancy fee	**–**	5,141
Rental prepayment	**19,463**	–
	419,338	528,327
Less: impairment of prepayment and doubtful receivables	**(5,338)**	–
	414,000	528,327
Less: non-current portion	**(12,859)**	(5,389)
	401,141	522,938

The Company and its subsidiaries did not hold any collateral over these balances (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

28 TRADE AND OTHER RECEIVABLES (Continued)

Notes:

(a) Included in the trade receivables of approximately HK$9,678,000 represented the receivables arising from provision of wifi network equipment and installation services to a related company controlled by Dr. Liu Ruopeng.

(b) As at 31 December 2016, the balance represented earnest monies paid for two investment projects, which were interest free and refundable. The balance was fully repaid to the Company during the year ended 31 December 2017.

The Company and its subsidiaries' trade and other receivables are denominated in the following:

	2017 **HK$'000**	2016 HK$'000
HK$	**2,251**	–
RMB	**392,975**	528,327
USD	**24,112**	–
	419,338	528,327

The following is an aging analysis of trade receivables presented based on date of revenue recognition as at 31 December 2017 and 2016:

	2017 **HK$'000**	2016 HK$'000
Trade receivables		
0-90 days	**94,958**	6,810
91-180 days	**31,063**	–
181-365 days	**–**	221,047
Over 365 days	**207,919**	99,137
	333,940	326,994

Movements in provision for doubtful receivables during the years end 31 December 2017 and 2016 are as follows:

	2017 **HK$'000**	2016 HK$'000
At 1 January	**–**	–
Provision for doubtful receivables for the year (Note 9)	**23,993**	–
Currency translation differences	**923**	–
At 31 December	**24,916**	–

As at 31 December 2017, trade receivables of approximately HK$228,110,000 (2016: HK$97,574,000) were past due but not impaired. These trade receivables are due from local government related bodies. The aging analysis of trade receivables which are past due but not impaired is presented as follows:

	2017 **HK$'000**	2016 HK$'000
Overdue by		
0-90 days	**23,192**	18,086
91-180 days	**–**	41,530
181-365 days	**129,686**	37,958
Over 365 days	**75,232**	–
	228,110	97,574

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For the year ended 31 December 2017

29 LOANS RECEIVABLES

	2017 HK$'000	2016 HK$'000
Non-current portion		
– Loan to a related party (Note a)	–	21,711
Current portion		
– Loan to a related party (Note a)	24,224	–
– Loans to third parties (Note b)	2,368	273,989
– Loan to an associate (Note c)	22,378	–
	48,970	295,700
Less: provision for impairment of loan receivables (Note c)	(24,746)	–
	24,224	295,700

Notes:

(a) The amount represented an advance to a potential investee, Zwipe AS. It is pledged with the patents of the borrower, interest bearing at 8% per annum and repayable within 24 months from the inception date. According to the terms of the loan agreement, the Company and its subsidiaries have the right to convert the loan into the borrower's shares at agreed conversion price if the borrower 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. During the year ended 31 December 2017, the repayment date of the loan was revised to 12 November 2018 and the conversion right was cancelled.

Both Dr. Liu R (the controlling shareholder and executive director of the Company and its subsidiaries) and Huang Weizi (spouse of Dr. Liu R) are directors of Zwipe AS. In additions, Photon Future Limited, a company controlled by Dr. Liu R, holds approximately 20% shares of Zwipe AS, and agrees to provide financial support to the investee to settle this loan. During the year ended 31 December 2017, the loan balance was reclassified to short term portion as it will mature in 2018.

(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. The loan was fully repaid by the borrower during the year ended 31 December 2017.

2. Loan receivables amounting to HK$264,439,000, which are unsecured, interest bearing at 3% per annum and repayable on demand. The loans were fully repaid during the year ended 31 December 2017.

As at 31 December 2017, the balance included a loan to Beyond Verbal of HK$2,368,000, which is unsecured, interest bearing at 6% per annum and mature on 31 March 2018. The loan was fully impaired as management considered the recoverability of the loans is remote.

(c) As at 31 December 2017, the balance also included a loan to Solar Ship of HK$22,378,000, which is secured by all of the present and future undertaking and personal property of the associate. CAD2,500,000 (approximately HK$15,759,000) of the loan is interest-free and CAD1,050,000 (approximately HK$6,619,000) is interest-bearing at 10% per annum, both of which are repayable on demand.

During the year ended 31 December 2017, management recognised full provision for impairment to the loans to Solar Ship (Note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

30 TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	**48,661**	45,558
Receipt in advance	**9,397**	98,969
Deposit received	**-**	67
Accrued employee benefits	**22,192**	33,650
Other tax payables (Note a)	**94,058**	73,783
Other payables and accruals	**9,449**	35,811
Accrued construction fee	**40,178**	–
	223,935	287,838

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

	2017 HK$'000	2016 HK$'000
Trade payables		
0-90 days	**36,223**	45,558
Over 90 days	**12,438**	–
	48,661	45,558

The Company and its subsidiaries' trade payables are denominated in the following:

	2017 HK$'000	2016 HK$'000
RMB	**29,571**	45,558
USD	**19,090**	–
	48,661	45,558

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

Note:

(a) At 31 December 2017, other tax payables mainly include value-added tax payable of HK$82,655,000 (2016: HK$66,217,000) arising from sales of Clouds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

31 DEFERRED GOVERNMENT GRANTS

At 31 December 2017, the balance represented deferred government grant of HK$11,528,000 (2016: HK$73,682,000) received from certain local governments. Local governments performed regular assessments on whether the attached conditions are properly fulfilled. Grants that have fulfilled the required conditions are recognised as "other income" in the consolidated statement of profit or loss.

32 BANK AND OTHER BORROWINGS

	2017 HK$'000	2016 HK$'000
Bank borrowings		
– Repayable within one year	**35,238**	264,147
Other borrowing		
– Repayable within one year	**–**	–
– Repayable more than two years but not more than five years	**360,955**	–
	360,955	–
Total bank and other borrowings	**396,193**	264,147

As at 31 December 2017, bank borrowing carried interest of approximately 6.70% per annum (2016: variable interest rate ranging from 1.93% to 2.10% per annum) which was secured by the prepaid leased land, amounting to HK$89,900,000 (2016: Nil) and was guaranteed by the Company and a company which is controlled by Dr. Liu R. Other borrowing carried interest at fixed interest rate of 6.50% per annum which was secured by the KCT's shares held by the Company and its subsidiaries, amounting to HK$1,420,811,000 and was guaranteed by the Company and a company which is controlled by Dr. Liu R (2016: Nil).

As at 31 December 2017, the total available banking facilities granted to the Company and its subsidiaries have amounted to approximately HK$780,520,000 (2016: HK$329,331,000), of which HK$385,107,000 (2016: HK$65,198,000) have been unutilised.

33 CONVERTIBLE DEBENTURE

As at 31 December 2016, the balance represented an unsecured convertible debenture issued by Solar Ship. The convertible debenture was denominated in CAD, outstanding with par value of CAD1,000,000 (approximately HK$6,584,000) bearing interest at 12% per annum and matured in November 2017 after the extension in November 2016. The convertible debenture holders were entitled to convert the convertible debenture into common shares of Solar Ship at a price of CAD100 per share.

The convertible debenture contained both liability and equity elements. The equity element was presented in equity heading "equity component of convertible debenture of a subsidiary". The effective interest rate of the liability component was 14% per annum.

The convertible debenture was derecognised upon the deemed disposal of a subsidiary as set out in Note 40.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

34 DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	Fair value change of right of shares of KCT and investment in KCT's shares HK$'000	Total HK$'000
At 1 January 2016	(67)	–	(67)
Derecognised upon disposal of a subsidiary	21	–	21
Credited /(charged) to the consolidated statement of profit or loss	13	(118,686)	(118,673)
At 31 December 2016	(33)	(118,686)	(118,719)
Derecognised upon disposal of a subsidiary	33	–	33
Charge to the consolidated statement of profit or loss (Note 14)	–	(92,461)	(92,461)
Credited to the other comprehensive income	–	64,067	64,067
Currency translation differences	–	(12,006)	(12,006)
At 31 December 2017	–	(159,086)	(159,086)

As at 31 December 2017, the Company and its subsidiaries had unrecognised tax losses of approximately HK$428,521,000 available for offset against future profits. No deferred tax asset has been recognised for such losses as at 31 December 2017 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 have no expiry date. Unrecognised tax losses of HK$210,300,000 have no expiry date, the remaining losses will expire at variable dates up to 2037.

Deferred income tax liabilities have not been recognised for the withholding tax that would be payable on the unremitted earnings of certain PRC subsidiaries of HK$72,144,000 (2016: HK$162,540,000). Such amounts are expected to be permanently reinvested and not intended to be distributed to the shareholders outside the PRC in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35 SHARE CAPITAL

	Number of shares	Equivalent to HK$'000
Ordinary shares		
Authorised:		
Ordinary shares of HK$0.01 each at 1 January 2016 and 31 December 2016 and 31 December 2017	7,316,666,668	73,167
Issued and fully paid:		
At 1 January 2016	5,713,734,459	57,137
Issue of ordinary shares upon conversion of preferred shares	375,666,666	3,757
At 31 December 2016 and 1 January 2017	6,089,401,125	60,894
Issue of ordinary shares upon exercises of share options (Note)	67,527,735	675
At 31 December 2017	6,156,928,860	61,569
Preferred shares		
Authorised:		
Preferred shares of HK$0.01 each at 1 January 2016 and 31 December 2016 and 31 December 2017	2,683,333,332	26,833
Issued:		
At 1 January 2016	375,666,666	3,757
Conversion of preferred share	(375,666,666)	(3,757)
Issued and fully paid of HK$0.01 each at 31 December 2016 and 31 December 2017	–	–

Note:

During the year ended 31 December 2017, 67,527,735 shares were issued upon the exercise of share options. The exercise price was HK$1.604 per share and resulted in approximately HK$675,000 increase in share capital and HK$107,639,000 increase in share premium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36 OTHER RESERVES

	Share premium HK$'000	Available-for-sale financial assets HK$'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	Total HK$'000
At 1 January 2016	2,096,146	–	(6,301)	103,941	77,930	(61,165)	2,210,551
Currency translation differences	–	–	–	–	–	(45,229)	(45,229)
Other comprehensive loss for the year	–	–	–	–	–	(45,229)	(45,229)
Share-based payment compensation	–	–	–	–	63,126	–	63,126
At 31 December 2016	2,096,146	–	(6,301)	103,941	141,056	(106,394)	2,228,448
At 1 January 2017	2,096,146	–	(6,301)	103,941	141,056	(106,394)	2,228,448
Currency translation differences	–	–	–	–	–	129,034	129,034
Fair value changes of available-for-sale financial assets, net of deferred tax	–	(363,041)	–	–	–	–	(363,041)
Other comprehensive (loss)/ income for the year	–	(363,041)	–	–	–	129,034	(234,007)
Total comprehensive (loss)/ income for the year	–	(363,041)	–	–	–	129,034	(234,007)
Exercise of share option (Note 35)	243,404	–	–	–	(135,765)	–	107,639
Change in shareholding in existing subsidiary without losing control upon exercise of underlying options	–	–	(217)	–	–	–	(217)
Share-based payment compensation	–	–	–	–	33,188	–	33,188
Deemed disposal of a subsidiary	–	–	24,201	–	–	–	24,201
At 31 December 2017	2,339,550	(363,041)	17,683	103,941	38,479	22,640	2,159,252

Notes:

(a) The balance of capital reserve represents the capital reserve arising from the Company and its subsidiaries restructuring which took place in 1992 and an option right.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

37 RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

The Company and its subsidiaries operate 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 Company and its subsidiaries, in funds under the control of trustees. The Company and its subsidiaries contribute 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 of approximately HK$88,000 for the year ended 31 December 2017 (2016: HK$46,000) represent retirement benefit contributions payable to the MPF Scheme by the Company and its subsidiaries.

The employees of the subsidiaries in the PRC and overseas are members of a state-managed retirement benefit scheme operated by the government of the PRC. The only obligation of the Company and its subsidiaries 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 of approximately HK$20,068,000 for the year ended 31 December 2017 (2016: HK$14,393,000) represent retirement benefit contributions payable to this scheme by the Company and its subsidiaries.

38 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 Company and its subsidiaries. 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 Company and its subsidiaries or whom the Board in its sole discretion considers eligible for the scheme on the basis of his or her contribution to the Company and its subsidiaries.

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 "2016 Share Options"). The details of these share options are summarised as follows:

	% of the	2014 Share Options		2014 Repriced Options		2015 Share Options	
	total share	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38 SHARE-BASED PAYMENT TRANSACTIONS (Continued)

	2014 share option	2014 Repriced Options	2015 Share Options
Recognised as expenses for the year ended 31 December 2017 (HK$)	N/A	23,838,125	9,349,345
Recognised as expenses for the year ended 31 December 2016 (HK$)	N/A	40,078,424	23,048,032
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

The following table lists the inputs to the fair value as at 30 September 2015 of the 2014 Share Repriced Options and 2016 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 2017	Exercised during year	Forfeited during year	Outstanding at 31 December 2017
2014 Share Options/2014 repriced options	67,537,000	(67,527,735)	(9,265)	–
2015 Share Options	70,000,000	–	–	70,000,000
Total	137,537,000	(67,527,735)	(9,265)	70,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38 SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Option type	Outstanding at 1 January 2016	Exercised 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

The Company and its subsidiaries recognised an expense of approximately HK$33,188,000 for the year ended 31 December 2017 (2016: HK$63,126,000) in relation to share options granted by the Company, and an expense of approximately HK$236,000 in relation to share options granted by its subsidiaries (2016: HK$356,000). The directors consider that the financial impact of the share-based payments granted by the subsidiaries is not material to the Company and its subsidiaries.

39 DISPOSAL OF A SUBSIDIARY

In February 2017, the Company has completed the disposal of the entire issued share capital of Fanda Pacific Limited ("Fanda Pacific"), a wholly owned subsidiary of the Company, to an independent third party, at a total consideration of HK$9,900,000. Fanda Pacific is principally engaged in property holding in Hong Kong. A gain on disposal of a subsidiary of HK$84,000 was recognised in the consolidated statement of profit or loss for the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

40 DEEMED DISPOSAL OF A SUBSIDIARY

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 37.77% 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 37.77% 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.

On 15 January 2017, the Company did not exercise the Option and hence the Option lapsed. The investment in Solar Ship was then derecognised from a subsidiary to an associate of the Company upon the expiry of the Option. A loss on deemed disposal of a subsidiary of approximately HK$18,091,000 was recognised in the consolidated statement of profit or loss for the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit for the year to cash used in operations:

	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES		
Profit before tax from continuing operations	**32,613**	737,464
Loss before tax from discontinued operation	**–**	(490)
Profit before tax	**32,613**	736,974
Adjustments for:		
Depreciation of property, plant and equipment (Note 17)	**51,092**	10,226
Amortisation of intangible assets (Note 18)	**5,314**	14,444
Amortisation of prepaid land lease payments (Note 25)	**2,283**	2,302
Finance income (Note 11)	**(13,864)**	(15,323)
Fair value changes of investment property	**–**	(100)
Gain on disposal of a subsidiary (Note 39)	**(84)**	(2,213)
Loss on disposal of property, plant and equipment (Note 8)	**350**	(737)
Impairment loss recognised in respect of goodwill (Note 19)	**32,364**	39,382
Impairment loss recognised in respect of intangible assets (Note 19)	**162,791**	–
Impairment loss recognised in respect of property, plant and equipment (Note 17)	**1,230**	–
Loss upon derecognition of swap right (Note 24)	**7,674**	–
Impairment loss recognised in respect of available-for-sale financial assets (Note 23)	**23,270**	–
Provision for impairment of loan receivables (Note 29)	**24,746**	–
Impairment loss recognised in respect of investment in an associate (Note 22(b))	**8,933**	–
Provision for doubtful receivables (Note 9)	**23,993**	–
Impairment loss recognised in prepayment and other receivable (Note 9)	**5,140**	–
Fair value changes of derivative financial assets (Note 24)	**(616,404)**	212,523
Gain on initial recognition of subscription right of KCT shares	**–**	(1,021,151)
Finance costs (Note 11)	**21,416**	4,126
Share of results of associates (Note 22)	**25,455**	2,858
Gain on deemed disposal of an associate	**–**	(13,181)
Loss on deemed disposal of a subsidiary (Note 40)	**18,091**	–
Share-based payment expenses	**35,502**	61,185
Operating cash flows before movements in working capital	**(148,095)**	31,315
Changes in inventories	**121,436**	(113,135)
Changes in trade and other receivables	**88,294**	(184,337)
Changes in trade and other payables	**(45,866)**	285,669
Changes in long-term deposits, prepayments and other receivables	**(7,848)**	12,947
Changes in deferred government grants	**(65,215)**	73,682
Cash (used in)/generated from operations	**(57,294)**	32,459

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Proceeds from disposal of property, plant and equipment comprises:

	2017 HK$'000	2016 HK$'000
Net book value of property, plant and equipment disposed (Note 17)	1,385	10,347
Loss on disposals of property, plant and equipment (Note 8)	(350)	(737)
Proceeds from disposals of property, plant and equipment	1,035	9,610

(c) Net cash inflow from disposal of a subsidiary comprises:

	2017 HK$'000
Cash consideration received	9,900
Less: bank balances and cash disposed of	(804)
Net cash inflow from investing activities	9,096

(d) Net cash outflow from deemed disposal of a subsidiary comprises:

	2017 HK$'000
Cash consideration received	–
Less: Cash and cash equivalent disposed of	(42,948)
Net cash outflow from investing activities	(42,948)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(e) Reconciliation of liabilities arising from financing activities

	Borrowings due within 1 year HK$'000	Borrowings due after 1 year HK$'000	Total HK$'000
As at 1 January 2017	(264,147)	–	(264,147)
Cash flows	230,278	(346,890)	(116,612)
Currency translation differences	(1,304)	(13,349)	(14,653)
Accrued interest	(65)	(716)	(781)
	–	–	–
As at 31 December 2017	(35,238)	(360,955)	(396,193)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42 OPERATING LEASES

The Company and its subsidiaries as lessor

During the year ended 31 December 2017, the Company and its subsidiaries earned rental income of HK$30,000 (2016: HK$360,000). As at 31 December 2017, the Company and its subsidiaries did not hold investment property.

At the year end the Company and its subsidiaries have contracted with tenants for the following future minimum lease payments:

	2017	2016
	HK$'000	HK$'000
Within one year	**–**	90

The Company and its subsidiaries as lessee

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

	2017	2016
	HK$'000	HK$'000
Not later than 1 year	**5,549**	7,600
Later than 1 year and no later than 5 years	**1,741**	6,573
	7,290	14,173

As at 31 December 2017, operating leases related to factory and offices with lease terms of 1 to 2 years (2016: 1 to 3 years). The Company and its subsidiaries do not have an option to purchase the leased assets at the expiry of the lease period.

43 COMMITMENTS

	2017	2016
	HK$'000	HK$'000
Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows		
Property, plant and equipment	**209,483**	253,107
Financial commitments on an investment (Note)	**140,400**	–

Note:

On 16 January 2017, the Company and its subsidiaries entered into an investment agreement with an investee. Pursuant to the agreement, the investment will be completed in three stages. The Company and its subsidiaries have completed the first stage during the year ended 31 December 2017, and such investment has been recognised as an unlisted available-for-sale financial asset (Note 23). Upon the completion of certain milestones set out in the investment agreement, the Company and its subsidiaries will further subscribe for new and existing shares issued by the investee in the second and third stages. The committed capital injection of the second and third stages has amounted to HK$140,400,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

44 RELATED PARTY TRANSACTIONS

(a) Immediate and ultimate holding company

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 R., who is also an executive director of the Company.

(b) Related party balance

Saved as disclosed in Note 28 and Note 29 to the consolidated financial statements, there was no other related party balance during the year.

(c) Related party transactions

Name of parties	Nature of transactions	2017 HK$'000	2016 HK$'000
Photon Technology (Note a)	Provision of wifi network equipment and installation services	**8,213**	–
Zwipe AS (Note b)	Interest income received	**1,741**	570

Notes:

(a) The director and controlling shareholder of the Company, Dr. Liu R., is a controlling shareholder of Photon Technology. The above transaction was conducted in the normal course of business of the Company and charged at terms mutually agreed by the parties concerned or in accordance with the terms of the underlying agreements, where appropriate.

(b) Both Dr. Liu R (the controlling shareholder and executive director of the Company and its subsidiaries) and Huang Weizi (spouse of Dr. Liu R) are directors of Zwipe AS. In additions, Photon Future Limited holds approximately 20% shares of Zwipe AS.

(d) Compensation of key management personnel

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

	2017 HK$'000	2016 HK$'000
Salaries and other short-term benefits	**9,377**	9,385
Share-based payments	**6,435**	42,904
	15,812	52,289

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(a) Details of the Company's principal subsidiaries as at 31 December 2017 and 31 December 2016 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		Principal activities
				31 Dec 2017	31 Dec 2016	
Direct subsidiaries						
MACL	New Zealand	New Zealand	NZD39,304,595	**52.01%**	52.01%	Development and commercialisation of the Martin Jetpacks
@ Solar Ship	Canada	Canada	CAD19,343,078	**37.77%**	37.77%	Development of a transport Platform
SkyX	BVI	Canada	USD6,000,000	**64.92%**	60.20%	Development and commercialisation of SkyX aircrafts
Indirect subsidiaries						
Kingdom Wealthy Limited	Hong Kong	Hong Kong	HK$2	**100%**	100%	Property investment
* 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
* 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
* 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 * 深圳光啟夢想科技有限公司	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	**100%**	80%	Provision of in-depth space services and other innovative technology business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

(a) Details of the Company's principal subsidiaries as at 31 December 2017 and 31 December 2016 are disclosed as follows: (Continued)

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.

@ As at 15 January 2017, the Company and its subsidiaries lost its control over Solar Ship. The investment in Solar Ship was derecognised as a subsidiary and became an associate of the Company and its subsidiaries. (Note 40).

The Company and its subsidiaries' principal subsidiaries at 31 December 2017 and 2016 are set out below. They have share capital consisting solely of ordinary shares and potential ordinary shares that are held directly by the Company and its subsidiaries, and the proportion of ownership interests held equals the voting rights held by the Company and its subsidiaries. The country of incorporation or registration is also their principal place of business.

	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	
					2017	2016	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
MACL	Development and commercialization of jetpack products	New Zealand	Ordinary shares	NZD39,304,595	**47.99%**	47.99%	**(120,387)**	(47,175)	**73,252**	192,324
SkyX	Development and commercialisation of SkyX aircrafts	BVI/Canada	Preferred shares	USD6,000,000	**35.08%**	39.80%	**(11,106)**	(1,971)	**(7,584)**	3,221
Solar Ship	Development and commercialization of solar powered aircrafts	Canada	Common shares	CAD19,343,078	**N/A**	62.23%	**(1,170)**	(18,625)	**N/A**	63,362
Other insignificant subsidiary that has non-controlling interest							**–**	–	**9,916**	9,869
							(132,663)	(67,771)	**75,584**	268,776

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Company and its subsidiaries. The amounts disclosed for each subsidiary are before inter-company eliminations.

Summarised statement of financial position	**MACL**		**SkyX**	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Current assets	**38,867**	110,004	**7,826**	31,037
Current liabilities	**(21,528)**	(43,311)	**(15,346)**	(19,743)
Current net assets/(liabilities)	**17,339**	66,693	**(7,520)**	11,294
Non-current assets	**12,631**	155,582	**6,692**	6,590
Non-current liabilities	**–**	–	**–**	–
Non-current net assets	**12,631**	155,582	**6,692**	6,590
Net assets/(liabilities)	**29,970**	222,275	**(828)**	17,884
Accumulated NCI	**73,252**	192,324	**(7,584)**	3,221

Summarised statement of comprehensive income	**MACL**		**SkyX**	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Revenue	**–**	–	**718**	–
(Loss)/Profit for the year	**(250,858)**	21,318	**(30,140)**	(4,939)
Other comprehensive expenses	**2,780**	(2,548)	**430**	(447)
Total comprehensive (expenses)/income	**(248,078)**	18,770	**(29,710)**	(5,386)
Loss allocated to NCI	**(120,387)**	(47,194)	**(11,106)**	(2,180)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

46 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:

	2017 HK$'000	2016 HK$'000
ASSETS AND LIABILITIES		
NON-CURRENT ASSETS		
Investment in subsidiaries	1,043,413	1,125,101
Amounts due from subsidiaries	874,022	769,598
Investment in an associate	25,998	25,998
Available-for-sale financial assets	–	23,270
	1,943,433	1,943,967
CURRENT ASSETS		
Other receivables	965	40,778
Loan receivables	24,230	161,261
Bank balances and cash	356,135	362,634
	381,330	564,673
CURRENT LIABILITIES		
Other payables	1,200	1,602
Amount due to a subsidiary	524	1,455
Bank borrowing	–	264,147
	1,724	267,204
NET CURRENT ASSETS	379,606	297,469
TOTAL ASSET LESS CURRENT LIABILITIES	2,323,039	2,241,436
CAPITAL AND RESERVES		
Share capital (Note 35)	61,569	60,894
Reserves	2,261,470	2,180,542
TOTAL EQUITY	2,323,039	2,241,436

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Movement in reserves

	Share premium HK$'000	Share Premium preferred share HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Shares-based payment reserve HK$'000	Total HK$'000
At 31 December 2015	2,069,865	26,281	103,941	(252,106)	77,930	2,025,911
Profit 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
Loss and total comprehensive loss for the year	–	–	–	(59,899)	–	(59,899)
Exercise of share options	243,404	–	–	–	(135,765)	107,639
Share based compensation	–	–	–	–	33,188	33,188
At 31 December 2017	2,339,550	–	103,941	(220,500)	38,479	2,261,470

47 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

48 EVENTS AFTER THE REPORTING PERIOD

Reference is made to the announcement of the Company dated 28 February 2018 in relation to the request for removal from the official list of the Australian securities exchange by a non-wholly-owned subsidiary voluntarily. The Company was informed by the board of directors (the "MACL Board") of Martin Aircraft Company Limited ("MACL"), a non-wholly-owned subsidiary of the Company with its shares listed on the Australian Securities Exchange (the "ASX") under stock code MJP, and according to the announcement of MACL dated 28 February 2018 published on the ASX website (the "MACL Announcement"), that following the receipt of in-principle approval from the ASX, the MACL Board has issued a formal request to the ASX on 28 February 2018 for MACL to be removed from the official list of the ASX, subject to the satisfaction of standard conditions (including MACL's shareholder approval having been obtained) (the "Proposed Privatisation"). The Company considers that the Proposed Privatisation will not have any impact on MACL's Jetpack product development and business.

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	Year ended 31 March	Period ended 31 December	Year ended 31 December		
	2014	2014	2015	2016	**2017**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	113,433	79,464	279,162	290,492	**306,192**
Profit (loss) before tax	(37,332)	(152,674)	42,982	737,464	**32,613**
Income tax expense	(576)	(861)	(14,761)	(140,430)	**(99,225)**
Profit (loss) for the year	(37,908)	(153,535)	28,221	597,034	**(66,612)**
Loss for the year from discontinued operation	–	–	(33,205)	(490)	**–**
Profit (loss) for the year	(37,908)	(153,535)	(4,984)	596,544	**(66,612)**
Attributable to:					
Owners of the Company	(37,908)	(153,535)	30,012	664,315	**66,051**
Non-controlling interest	–	–	(34,996)	(67,771)	**(132,663)**
	(37,908)	(153,535)	(4,984)	596,544	**(66,612)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March	As at 31 December			
	2014	2014	2015	2016	**2017**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	189,715	1,936,751	2,457,909	3,504,108	**3,333,301**
Total liabilities	(22,550)	(218,510)	(282,911)	(774,397)	**(799,252)**
	167,165	1,718,241	2,174,998	2,729,711	**2,534,049**
Share capital	14,495	34,061	57,137	60,894	**61,569**
Preferred share	–	10,733	3,757	–	**–**
Reserves	152,670	1,668,445	1,861,237	2,400,041	**2,396,896**
Equity attributable to owners of the Company	167,165	1,713,239	1,922,131	2,460,935	**2,458,465**
Non-controlling interest	–	5,002	252,867	268,776	**75,584**
Total equity	167,165	1,718,241	2,174,998	2,729,711	**2,534,049**

SUPPLEMENTAL INFORMATION

Considered that the balance of available-for-sale financial assets is significant to the consolidated statement of financial position as at 31 December 2017, Management of the Company would like to disclose additional information to facilitate the understanding of the users of the consolidated financial statements. The breakdown of the available-for-sale financial assets is as follows:

	2017 HK$'000	2016 HK$'000
Listed		
Kuang-Chi Technologies Co., Ltd. (Note (i))	**1,420,811**	–
Unlisted		
Gilo Industries Group (Note (ii))	**91,757**	–
Beyond Verbal Communications Ltd. (Note (iii))	**23,270**	23,270
深圳烯旺新材料科技股份有限公司 (Shenzhen Grahope New Materials Technologies Inc.) (Note (iv))	**6,004**	5,770
Less:		
Provision for impairment of investment in Beyond Verbal	**(23,270)**	–
	97,761	29,040
	1,518,572	29,040

(i) Kuang-Chi Technologies Co., Ltd. ("KCT", formerly known as "Zhejiang Longsheng Auto Parts Co., Ltd. (浙江龍生汽車部件股份有限公司))

On 25 March 2015, the Company and its subsidiaries entered into a subscription agreement with KCT, which listed on the Shenzhen Stock Exchange, pursuant to which KCT conditionally agreed to issue, and the Company and its subsidiaries conditionally agreed to subscribe for 42,075,736 new shares of KCT at the consideration of RMB300,000,000 (equivalent to approximately HK$345,000,000). On 11 November 2016, the Company and its subsidiaries obtained the approval from the China Securities Regulatory Commission for the subscription and certain conditions of the subscription agreement have been satisfied. The subscription right is a derivative that measured at fair value to profit or loss. During the year ended 31 December 2016, the Company and its subsidiaries 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 in fair value of HK$229,913,000 in the consolidated profit or loss.

The subscription has been completed on 13 February 2017. As at 13 February 2017, the fair value of the derivatives asset was amounted to approximately HK$1,419,691,000 and hence the Company and its subsidiaries recognised a fair value gain of HK$616,404,000 upon the conversion of derivative in the consolidated statement of profit or loss.

SUPPLEMENTAL INFORMATION

Subsequent to the completion of subscription on 13 February 2017, the Company and its subsidiaries hold 3.32% of the ordinary shares of KCT issued. The directors of the Company consider the Company has no significant influence over KCT and no right to appoint any director, and hence classified the investment in KCT as available-for-sale investment at HK$1,419,691,000 which is the fair value of KCT as at 13 February 2017. The fair value loss of HK$427,108,000 from 13 February 2017 to 31 December 2017 was recognised in other comprehensive loss.

KCT is principally engaged in (i) the manufacturing and sale of automotive parts; (ii) the sale of commercial vehicles, general machinery and instrumentation; (iii) the import and export business; and (iv) the metamaterials industry. The Company notes that KCT is actively developing smart structures and vehicle equipment for road transport and the rail transit sector. Through the investment in KCT, the Company believes that the technology can be integrated with the Company's products.

(ii) Gilo Industries Group Limited ("Gilo")

In January 2017, Advance Summit Limited ("Advance Summit"), a wholly-owned subsidiary of the Company, and Gilo entered into the Investment Agreement. Pursuant to the Investment Agreement, Advance Summit will (i) subscribe for new capital of Gilo; and (ii) acquire certain existing ordinary shares of Gilo. Gilo is a UK based company which is principally engaged in the research and development and manufacturing of aviation and new engines. Through the investment in Gilo, the Company will be able to benefit from Gilo's high-quality engine products and support in research and development.

The investment comprised of three tranches. Upon obtaining all approvals required under the relevant foreign exchange laws and regulations of the PRC, the first tranche of investment will be made in the form of subscription of new ordinary shares of 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$77,977,750) 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, Advance Summit 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).

As at 31 December 2017, the Company and its subsidiaries held approximately 19.14% of the issued share capital of Gilo. The Company and its subsidiaries estimate the fair value based on the latest market price of the financial assets based on arm's length basis.

(iii) Beyond Verbal Communication Ltd ("Beyond Verbal")

In September 2016, the Company and 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 (equivalent to approximately HK$23,270,000) (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. Based in Tel-Aviv, Israel, Beyond Verbal is a health and emotions analytics solution provider. Beyond Verbal's emotion analysing technology will enhance the Company's ability to develop artificial intelligence. Such an investment in Beyond Verbal therefore represents integration and development of new technologies and applications.

SUPPLEMENTAL INFORMATION

As at 31 December 2016 and 31 December 2017, 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 31 December 2016 and 31 December 2017 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.

During the year ended 31 December 2017, the carrying amount of the available-for-sale investment in Beyond Verbal of HK$23,270,000 was fully impaired as further financing is required to be obtained by such investment to meet its development and business plan. After discussion and preliminary assessment by the Board on the financial position of the investment with reference to the latest information, the Company took a prudent approach and made a full impairment on the carrying amount of the investment.

(iv) 深圳烯旺新材料科技股份有限公司 (Shenzhen Grahope New Materials Technologies Inc.) ("GNM")

GNM is an enterprise that specialises in the application of graphene in field of wearable technology. The Company and GNM are establishing a strategic partnership to explore the potential application of graphene in other aspects to yield reasonable financial returns. The Company invested RMB5,000,000 (equivalent to approximately HK$5,770,000) in GNM during the year ended 31 December 2016 and currently hold 1.61% of the registered share capital of GNM.