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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr Erik D. Prince *(Chairman)*
Mr Ko Chun Shun, Johnson *(Deputy Chairman)*
Mr Luo Ning *(Deputy Chairman)*
Dr Hua Dongyi *(Chief Executive Officer)*
Mr Hu Qinggang

Independent Non-Executive Directors

Mr Yap Fat Suan, Henry
Professor Lee Hau Leung
Dr Harold O. Demuren

Audit Committee

Mr Yap Fat Suan, Henry *(Chairman)*
Professor Lee Hau Leung
Dr Harold O. Demuren

Nomination Committee

Mr Erik D. Prince *(Chairman)*
Mr Ko Chun Shun, Johnson
Mr Yap Fat Suan, Henry
Professor Lee Hau Leung
Dr Harold O. Demuren

Remuneration Committee

Professor Lee Hau Leung *(Chairman)*
Mr Erik D. Prince
Mr Ko Chun Shun, Johnson
Mr Yap Fat Suan, Henry
Dr Harold O. Demuren

COMPANY SECRETARY

Mr Chan Kam Kwan, Jason

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

Baker & McKenzie
Michael Li & Co.
Reed Smith LLP

PRINCIPAL BANKERS

Bank of Communications Co., Limited
China Everbright Bank
Hang Seng Bank Limited
Industrial and Commercial Bank of China

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Suite 3902, 39th Floor
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Principal Registrars

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong Branch Share Registrars and Transfer Office

Tricor Tengis Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTOR RELATIONS

Investor Relations Department
Frontier Services Group Limited
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Chairman's Statement

Dear Shareholders

The end of 2016 marked the completion of the third full-year of operations for Frontier Services Group Limited ("FSG" or the "Company") as a leading logistics, security and insurance services company serving clients in China and around the world. We continue to help businesses operating in frontier markets overcome complex security, logistics and operational challenges.

2016 saw FSG take substantive steps to grow in existing markets as well as aligning our strategy to better serve China's One Belt One Road development policy. FSG is focused on three key service areas – logistics, security and insurance in three regions – East Africa, Northwest Region and Southwest Region of One Belt One Road. The twelve target countries are split evenly amongst the three regions. East Africa includes Kenya, Somalia, South Sudan and Democratic Republic of the Congo ("DRC"); the Northwest Region includes Kazakhstan, Uzbekistan, Pakistan and Afghanistan; and the Southwest Region includes Myanmar, Thailand, Laos and Cambodia.

Finally, the management team at FSG has worked towards creating a more streamlined organisation chart, management structure and financial control of the business. The organisation and firm are poised for significant growth and have the systems and structure in place to realise the next level of development.

STRATEGIC SHIFT TO LEVERAGE ONE BELT ONE ROAD

From its inception, FSG has focused on helping its customers operate more securely and efficiently in frontier markets. One Belt One Road concentrates on connectivity, development and cooperation among countries situated primarily between the People's Republic of China and Eurasia. FSG is positioning itself to better serve its customers in these rapidly developing markets by building new offices in the region, establishing a Shanghai-based logistics team and developing strategic partnerships with local operators.

FSG has expanded its offices in Malta, Beijing and Nairobi. With its unique strategic position bridging Europe and Africa, Malta provides an ideal base for aviation services reaching these two very important markets. In addition, FSG's offices in the central Asian country of Kazakhstan, extend its reach into the expanding One Belt One Road trade routes.

STRENGTHENING OF THE SENIOR MANAGEMENT TEAM

Throughout 2016, FSG has been able to recruit and retain talent to grow and strengthen our company. Being able to offer our Chinese and international customers a world class service is a key part of our business strategy, and these new appointments will boost significantly our capabilities.

This has started from the top where we have recruited Dr Hua Dongyi as Chief Executive Officer of the Company. Dr Hua has already had a huge impact on the Company and we look forward to continuing to grow under his leadership in 2017.

In addition, FSG has brought in a series of important senior hires significantly strengthening the Company's management team. Newly appointed Heads of Africa, Human Resources, Logistics, Insurance and Southwest Region have made it possible to offer our clients better service across a greater geography.

NEW AND EXISTING SERVICE LINES – LOGISTICS, SECURITY AND INSURANCE

In 2016, FSG launched its Insurance Division following a strategic framework deal with Ping An Property & Casualty Insurance Company of China, Limited ("Ping An") to develop innovative insurance products and services. FSG will continue to partner with leading insurance firms in China to bring customised insurance solutions. As a leading security services and logistics company, FSG is uniquely positioned to change the reactive approach of firms operating in complex environments with comprehensive insurance products that help customers manage and mitigate risks. The new partnership will provide global insurance solutions to protect customers from all eventualities.

We are also partnering with leading firms in China to bring customers customised insurance and aviation solutions. The unique opportunities presented by One Belt One Road will allow FSG to utilise the strengths of its partners to create custom-made products and solutions for these new markets.

In addition, FSG is building a project logistics team in China to understand the challenges and needs of our customers working on projects along One Belt One Road. The multidisciplinary team will be able to create solutions for customers across sea, air and land, enabling FSG to better deliver services across new frontier markets.

In July 2016 we were able to complete our acquisition of Maleth Aero Limited, which has since been integrated into FSG platforms. The acquisition has enhanced FSG's ability to connect to the One Belt One Road project and provides a broad scope of aviation management services, including the management of both cargo and passenger charter operations.

Transit Freight Forwarding Proprietary Limited ("TFF"), FSG's wholly-owned South African logistics subsidiary, expanded into the Angolan freight market supporting two major customers into this new geography. In addition, TFF's repeated high performance ratings on transportation and warehousing and renewed contracts with key clients are creating positive momentum for growth. TFF is an essential platform in order to serve our customers across the South of Africa.

Cheetah Logistics SARL, FSG's wholly-owned logistics subsidiary headquartered in DRC, saw a major turnaround of the company significantly increasing the revenue of the business. New administration procedures in place for better record keeping of financial systems and assets, new office and lay-down yard in Kinshasa for easier management and maintenance of vehicles, as well as in-house services including mechanics all contributed to the transformation. The company is now more efficient with clear service objectives.

Phoenix Aviation Limited ("PAL"), based in Nairobi, Kenya, saw increased geographic coverage of its aviation operations to Australia, Yemen, Saudi Arabia, India, Pakistan, DRC, West Africa, Somalia, North and South Sudan, Afghanistan and Iraq. Revenue was split 48% for air ambulance, 40% for charter and 8% for aircraft maintenance. PAL gained EASA Third Country Operators (TCO) approval allowing PAL to provide aviation service in 44 European Union territories.

OUTLOOK FOR 2017

As we enter into 2017, I look forward to deepening our relationships with Chinese and international customers as we expand our comprehensive offering for our international customers. With a new senior team in place and FSG's capabilities becoming more widely understood among prospective customers and key stakeholders, our team will strive to achieve our performance goals for growth.

As FSG grows its logistics capabilities across Africa, we are looking forward to extending our work along the One Belt One Road region. Our aircraft reach can extend air operations, medevac and air cargo on demand through the entire region. Our logistics expertise, honed and growing in Africa, can be applied to wherever our customers need us across East or Central Asia and the Middle East. FSG will help make One Belt One Road a commercial success and ensure that our clients can focus on meeting their project milestones on time and under budget.

While I look forward to a great 2017, I would like to express my gratitude to all of our shareholders, employees, customers, and business partners for their support over the past year.

Erik D. Prince
Chairman
Hong Kong, 22 March 2017

Management Discussion and Analysis

REVIEW OF RESULTS

Overall Performance

	2016	2015
	HK$'000	HK$'000
		(Restated)
Revenue	**576,889**	215,337
Cost of direct materials and job expenses	**(130,697)**	(113,216)
Cost of aircraft management services	**(48,134)**	–
Data costs	**(8,033)**	(8,714)
Employee benefit expenses	**(166,129)**	(116,763)
Sub-contracting charges	**(246,900)**	(46,755)
Operating lease rentals	**(18,014)**	(43,980)
Repairs and maintenance costs	**(42,948)**	(23,295)
Depreciation and amortisation	**(34,115)**	(27,303)
Other income and other gains	**20,911**	1,598
Other operating expenses	**(84,743)**	(93,270)
Gain on disposal of available-for-sale financial assets	**10,712**	279,870
Provision for impairment of goodwill	**(9,970)**	(94,975)
Provision for impairment of property, plant and equipment, net	**(17,362)**	(66,118)
Operating loss	**(198,533)**	(137,584)
Interest income	**13,857**	21,610
Finance costs	**(23,339)**	(29,667)
Share of loss of associates	**(561)**	(443)
Loss before income tax	**(208,576)**	(146,084)
Income tax credit/(expenses)	**(910)**	3,164
Loss for the year	**(209,486)**	(142,920)

Frontier Services Group Limited (the "Company") and its subsidiaries (together, the "Group") reported record consolidated revenue of HK$576,889,000 for the year ended 31 December 2016. The financial effect of the Group's acquisitions of Transit Freight Forwarding Proprietary Limited ("TFF") and Maleth Aero Limited ("Maleth") was the fundamental driver of the 168% annual revenue growth. For 2016, the Group reported an operating loss of HK$198,533,000, a substantial increase over 2015's reported operating loss of HK$137,584,000. However, reported results for 2015 included extraordinary income and expenses, such as a significant gain on the disposal of available-for-sale financial assets and substantial impairment charges against goodwill and property, plant and equipment, which had a combined positive effect reducing the reported operating loss by HK$118,777,000 on a net basis. As a result, the reported operating loss for 2016 would have decreased considerably versus the same figure for 2015 if those extraordinary items had been excluded. While core operating expenses were reduced as a percentage of revenue and greater overhead leverage was achieved, the Group's net loss was HK$209,486,000 for the year ended 31 December 2016.

Financial Key Performance Indicators

	Year ended 31 December	
	2016	2015
	HK$	HK$
Basic loss per share	**(17.06) cents**	(11.62) cents

	As at 31 December	
	2016	2015
	HK$'000	HK$'000
Total assets	**912,467**	1,349,713
Shareholders' funds	**275,403**	526,745
Net asset value per share (excluding non-controlling interests)	**22 cents**	43 cents
Cash and bank balances	**299,388**	692,435
Current ratio	**1.34**	1.90
Total liabilities-to-total assets ratio	**0.56**	0.52
Price to book ratio	**4.66**	4.15

The basic loss per share was HK$0.1706 for 2016, relative to HK$0.1162 for 2015. At 31 December 2016, the Group had total assets of HK$912,467,000, marking a 32% decline versus the same figure for 2015 due to a decrease in cash and bank balances principally used to repay maturing bank loans and general working capital requirements, minimal capital expenditures, and impairment charges taken against goodwill and property, plant and equipment. The current ratio and total liabilities-to-total assets ratio at year-end 2016 were 1.34 and 0.56 respectively. While the Group's total liabilities-to-total assets ratio experienced very little increase, the material annual change in the current ratio resulted from a decline principally in cash and bank balances during 2016. The pronounced drop in the Company's share price over 2016, closing at year-end at HK$1.04, and a decline in Group's net assets were the primary catalysts in the increase in the price-to-book ratio.

Revenue

	2016 **HK$'000**	2015 HK$'000 (Restated)
Aviation and logistics business	**555,462**	191,569
Financial market information business	**21,427**	23,768
	576,889	215,337

Consolidated revenue for 2016 was HK$576,889,000, marking growth of nearly 1.7 times on an annual basis. The incorporation of full-year results for TFF and partial-year results for Maleth was the primary driver of the 168% annual growth in total revenue. More specifically, TFF and Maleth contributed approximately HK$321,968,000 and HK$54,658,000 of revenue respectively to the Group's 2016 revenue. As a result, and in line with past years, aviation and logistics ("AL") business accounted for 96% of the Group's 2016 revenue. The Group's remaining legacy unit, financial market information ("FMI") business, produced HK$21,427,000 of revenue for the full-year 2016, a decline of 10% versus 2015 as market demand slackened.

Gain on Disposal of Available-for-Sale Financial Assets

The gain on disposal of available-for-sale financial assets for the year ended 31 December 2016 represents the net gain on disposal of shares of Yunfeng Financial Group Limited (formerly known as REORIENT GROUP LIMITED) ("YFGL") in the market.

Provision for Impairment of Goodwill

Goodwill of HK$9,970,000 associated with the Group's operating businesses was charged off in 2016. The decision to take this impairment against three AL subsidiaries, namely Phoenix Aviation Limited ("PAL"), TFF and Cheetah Logistics SARL ("Cheetah"), was reached after a careful internal review of those business units and discussion among the Group's senior management. PAL accounts for two-thirds of the total goodwill impairment booked in 2016. This is largely due to a decline in the franchise's core air ambulance business within a generally more competitive marketplace in east and central Africa, which has had a secondary, negative effect on pricing. In the future, the Group will continue to monitor the carrying amount of its acquired goodwill in accordance with its accounting practices.

Provision for Impairment of Property, Plant and Equipment, Net

The Group recorded a net impairment of HK$17,362,000 against its property, plant and equipment for the year ended 31 December 2016. More than three-quarters of these impairment charges were taken against the aircraft fleet, with HK$10,287,000 alone charged against one of the 737 airliners. Consistent with Group accounting practices, the carrying amount of property, plant and equipment is measured periodically against the resale market for comparable assets. The market for aviation assets is cyclical, with substantial changes in resale pricing common over time. Consequently, the Group impaired specific aircraft within its fleet to better reflect the likely value achievable in a resale scenario as at 31 December 2016, and will continue to do so going forward if an impairment indicator is identified. In addition, HK$3,792,000 in impairment charges was taken against Cheetah's fleet of trucks and trailers to bring the carrying amount of those assets in line with local aftermarket pricing for comparable units.

REVIEW OF OPERATING SEGMENTS

Aviation and Logistics Business ("AL segment")

2016 was a year of rapid topline growth for the Group's core AL segment, with reported revenue of HK$555,462,000 from operating subsidiaries based in Africa and southern Europe. The full-year and partial-year effects, respectively, of the TFF and Maleth acquisitions were the fundamental catalyst in AL segment revenue growth versus 2015. On balance, the AL segment generated substantially more operating leverage over its cost base during 2016, with all categories of expenses below 2015 levels when measured against revenue. Cost containment, however, remains a key ongoing focus as the Group strives to enhance profitability.

TFF, the South African warehouse and distribution business acquired in late 2015, generated revenue of HK$321,968,000 for the year ended 31 December 2016. Accounting for foreign exchange gain on conversion, TFF's 2016 revenue results were roughly in line with expectations at the time of the acquisition in 2015. The governance and leadership initiatives put in place during the first half of 2016 yielded considerable overall growth, including the successful acquisition of new business with its most important customer late in the year. This work outside of South Africa and other ongoing cost containment efforts are expected to contribute to the business going forward during 2017. Cheetah, the small Congolese trucking operation, benefited from increased managerial oversight by TFF, leading to vastly improved revenue growth as the year progressed. For the year ended 31 December 2016, Cheetah achieved peak run-rate revenue for the period since acquisition, with further integration into TFF likely for 2017.

Maleth, the Group's Malta-based aircraft management services business, was acquired in July 2016. With only partial-year results included, therefore, Maleth nevertheless contributed HK$54,658,000 to total revenue for 2016. PAL, the Group's other aviation business headquartered in Nairobi, Kenya, generated HK$128,184,000 of revenue in 2016. This reported figure represents a 2% decline relative to PAL's revenue for 2015, reflecting downward pressure on pricing, a generally more competitive market for charter and air ambulance services in east and central Africa. PAL also recorded a large engine overhaul cost, totalling HK$11,570,000, during 2016, which, while reserved for, had a considerable impact on the profitability of the subsidiary.

Despite the significant revenue growth and the operating leverage gains to the Group's AL business, the segment reported an operating loss of HK$126,960,000 after corporate overhead is included in the analysis. Therefore, as with the second half of 2016, there is significant ongoing focus among management on cost containment and revenue expansion to achieve recurring profitability.

Financial Market Information Business ("FMI segment")

For the year ended 31 December 2016, the Group's FMI segment generated reported revenue of HK$21,427,000. This legacy business unit provides online financial market data and related information. FMI segment revenue for 2016 represents a 10% decline against comparable figure for 2015. Considered non-core to the Group's overall results and outlook, the FMI segment produced a small operating loss of HK$1,387,000 for the year ended 31 December 2016 as demand for its services declined during the year.

Direct Investments

Direct investments is the Group's segment for available-for-sale financial assets and other direct investment holdings. For the full-year 2016, the Group generated HK$10,712,000 in profit from the direct investments segment. This resulted from the disposal of shares of YFGL in the open market during the year. For 2015, the comparable reported profit from the direct investments segment also included a profit of HK$279,870,000 resulting from the disposal of shares in the predecessor to YFGL. The profit recorded in 2015 from direct investments segment is the primary contributor to the disparity in year-over-year operating results.

PROSPECTS

2016 was a significant turning point for the Group, with a new management team, business organisation, strategy and service offerings. Entering 2017, the Group has considerable momentum to offer its clients solutions and not just individual services. The Group has expanded from Africa into Asia in order to align itself with China's One Belt One Road development strategy. The Group will focus on creating growth by offering project level solutions leveraging the connectivity of global offices, teams, subsidiaries and assets across multiple service lines.

For 2017, the AL segment businesses are expected to focus on topline growth, asset efficiency and expense reduction. More specifically, TFF will seek greater customer diversification, improved deployment of in-house assets and a general reduction in its cost structure. Similarly, Cheetah's outlook is solid with TFF's managerial oversight in place, with an emphasis on return-on-assets and expense rationalisation. In the Group's aviation business, PAL is presently seeking to expand the scope of its services to key customers by forward-positioning client-dedicated aircraft, while also exploring strategic partnerships to enhance its margin capture. PAL is also expected to play an important part in the Group's efforts to develop a secure logistics corridor in east Africa, in addition to its fulfillment role with the Group's new Insurance Division business. Maleth, the Group's most recent acquisition, is experiencing a period of substantial growth through new aircraft inductions and a rapid move into freight programs. With an existing geographic reach into central Asia, Maleth is expected to be a key element of the Group's One Belt One Road business development efforts during the coming year. Overall, the Group will seek greater integration of the AL segment with Chinese customers and projects in 2017 without detracting from the subsidiaries' existing businesses and internal initiatives for growth and margin improvement.

The Group has made a strategic shift to support One Belt One Road opportunities. To that end, the Group has recently installed a dedicated project logistics team in Shanghai, led by senior logisticians with experience managing large-scale programs. At the same time, the Group is demonstrating its commitment to be close geographically to its most important current and future clients, with plans in place to establish new offices in China's Yunnan Province and in the Xinjiang Uyghur Autonomous Region. These two new office locations will position the Group to be ready to service projects and clients operating in Myanmar, Thailand, Laos and Cambodia, and in Kazakhstan, Uzbekistan, Pakistan and Afghanistan, respectively.

The Group's Insurance Division, launched in late 2016, will complement the geographic expansion into important One Belt One Road regions. The Insurance Division, established following the framework of a strategic partnership with Ping An Property & Casualty Insurance Company of China, Limited ("Ping An"), will develop and fulfill innovative insurance products and services. Leveraging the Group's full-spectrum capabilities in security and logistics, our new Insurance Division is poised alter fundamentally the traditional, reactive approach of companies operating in complex environments through proactive and comprehensive risk mitigation policies. Throughout the coming year, the Group will continue to explore additional relationships with Ping An and other partners to deliver customised insurance solutions tailored to One Belt One Road projects and operating scenarios.

With impressive topline growth achieved during 2016, the Group looks ahead to 2017 with great optimism. New senior leadership, a Shanghai-based project logistics team, One Belt One Road regional offices and facilities and a greater overall understanding of the Group's unique capabilities, the coming year is filled with opportunities. Throughout it all, the Group will continue to deliver premium services, customised to our international clients' requirements and the specific challenges of their operating environments.

EMPLOYEES

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay level of its employees is competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance. Employees are offered discretionary year-end bonus based on individual merit.

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible directors and employees of the Group to recognise their contribution to the success of the Group. The Company has granted 24,632,060 share options under its share option scheme during the year ended 31 December 2016 (2015: Nil).

The Company also operates a share award scheme to recognise the contributions by certain employees and persons to the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. The Company has granted 10,067,000 shares under its share award scheme during the year ended 31 December 2016 (2015: N/A).

The total number of employees of the Group as at 31 December 2016 was 430 (2015: 422).

FINANCIAL REVIEW

Liquidity and Financial Resources

At 31 December 2016, the Group recorded total assets of HK$912,467,000 (2015: HK$1,349,713,000) which were financed by liabilities of HK$513,536,000 (2015: HK$706,718,000), non-controlling interests of HK$123,528,000 (2015: HK$116,250,000) and shareholders' equity of HK$275,403,000 (2015: HK$526,745,000). The Group's net asset value per share (excluding non-controlling interests) as at 31 December 2016 amounted to HK$0.22 (2015: HK$0.43).

The Group recorded cash and bank balances of HK$299,388,000 (2015: HK$692,435,000) and total borrowings of HK$318,164,000 (excluding facility arrangement fees of HK$1,380,000) (2015: HK$548,010,000 (excluding facility arrangement fees of HK$4,517,000)) as at 31 December 2016. During the year ended 31 December 2016, bank loans amounting to HK$422,130,000 in aggregate were matured and repaid by internal resources. The Group's borrowings, which comprise of bank loans, finance leases and other loan and are denominated in United States dollars ("US$"), South African Rand ("ZAR") and Euro ("EUR"), will mature in 1 to 4 years (2015: 1 to 5 years) as at 31 December 2016. Except for the borrowings of HK$45,635,000 (2015: HK$49,775,000), which are interest bearing at fixed rates, the remaining balances of HK$272,529,000 (2015: HK$498,235,000) are interest bearing at floating rates as at 31 December 2016. On the basis of the Group's net borrowings (total borrowings less cash and bank balances) relative to the shareholders' equity and non-controlling interests, the Group's gearing ratio was 0.07 (2015: Nil) as at 31 December 2016.

Subsequent to the financial position date on 13 March 2017, the Company issued 216,000,000 new shares at an issue price of HK$0.90 each. Net proceeds of HK$192,456,000 was raised for the working capital for the development and expansion of the Group's existing AL business.

At 31 December 2016, the Company had 361,856,173 outstanding share options (2015: 344,384,113), out of which 133,949,888 share options (2015: 116,477,828) were granted under its share option schemes. Subsequent to the financial position date, 22,790,628 share options and 1,000,000 share options were lapsed on 14 January 2017 and 12 February 2017 respectively. If all of the remaining outstanding share options were exercised, a gross proceeds of approximately HK$339 million (2015: HK$338 million) in aggregate would be raised before deducting any issuance expenses.

Treasury Policies

The Group adopts conservative treasury policies and has tight controls over its cash management. The Group's cash and bank balances are held mainly in Hong Kong dollars ("HK$"), Renminbi ("RMB"), US$ and EUR. Other than the bank deposits pledged for the Group's bank borrowings, surplus cash is generally placed in term deposits and investments in light of the Group's funding requirements.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group currently operates mainly in Hong Kong, Africa, Malta and mainland China.

For operations in Hong Kong, most of the transactions are denominated in HK$ and US$. The exchange rate of US$ against HK$ is relatively stable, and the related currency exchange risk is considered minimal.

For operations in Africa, most of the transactions are denominated in US$, Kenyan Shillings ("KES") and ZAR. The exchange rates of KES and ZAR against HK$ have decreased by 0.1% and increased by 14.4% respectively during the year ended 31 December 2016. No financial instrument was used for hedging purposes for the year due to the prohibitive cost of available hedging opportunities. The Group is closely monitoring the currency exchange risk of KES and ZAR and will consider the use of financial instrument for hedging purposes, if necessary.

For operations in Malta, most of the transactions are denominated in EUR and US$. The exchange rate of EUR against HK$ has decreased by 3.4% during the year ended 31 December 2016. No financial instrument was used for hedging purposes for the year. The Group is closely monitoring the currency exchange risk of EUR and will consider the use of financial instrument for hedging purposes, if necessary.

For operations in mainland China, most of the transactions are denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange controls promulgated by the Chinese government. The exchange rate of RMB against HK$ has devalued since August 2015. No financial instrument was used for hedging purposes for the year. During the year ended 31 December 2016, the Group has substantially reduced its exposure to the currency exchange risk of RMB through the disposal of a subsidiary incorporated in mainland China. The Group is closely monitoring the currency exchange risk of RMB and is looking for any opportunities to mitigate the currency exchange risk of RMB.

Material Acquisitions and Disposals of Subsidiaries and Associates

On 3 February 2016, the Group entered into a conditional investment agreement for the acquisition of 51% equity interest in Maleth, a company through its subsidiary, Maleth Aero AOC Limited, principally engaged in the provision of aircraft management services, for a consideration of approximately EUR1,002,000 (equivalent to approximately HK$8,963,000). On the same date, the Group also entered into a symmetrical put and call option agreement for the right to purchase the remaining 49% equity interest in Maleth at an option price equal to the higher of EUR1,000,000 (equivalent to approximately HK$8,190,000) and 4.5 multiplied by the average consolidated earnings before interest, tax, depreciation and amortisation of Maleth for the prior two financial years preceding the exercise of the put option or the call option, which is capped at EUR10,000,000 (equivalent to approximately HK$81,895,000). The acquisition of 51% equity interest in Maleth was completed on 6 July 2016.

On 20 May 2016, the Company entered into a sale and purchase agreement for the disposal of the entire interest in Amazing View Limited, a company principally engaged in investment holding and wholly owned a subsidiary incorporated in mainland China, for a consideration of HK$250,250,000. The disposal was completed on 23 May 2016.

Save as mentioned above, the Group did not have any other material acquisitions or disposals of subsidiaries and associates during the year ended 31 December 2016.

Charges on Assets

At 31 December 2016, the Group had bank deposits amounting to approximately HK$216,208,000 (2015: HK$459,570,000) and certain trade receivables of approximately HK$9,366,000 (2015: Nil) pledged to banks as security for bank borrowings. In addition, an indirect wholly-owned subsidiary of the Company has issued a fixed and floating debenture on all its assets and property and has mortgaged an aircraft as securities for its banking facilities.

Future Plans for Material Investments or Capital Assets

The Group did not have any concrete future plans for material investments or capital assets as at 31 December 2016 (2015: Nil). However, the Group always seeks for new investment opportunities in the AL business to broaden the revenue and profit potential of the Group and enhance shareholders' value in long term.

Capital Expenditure Commitments

The Group did not have any material capital expenditure commitments as at 31 December 2016.

Contingent Liabilities

The Group, in the ordinary course of its business, is involved in various claims, suits, investigations and legal proceedings that arise from time to time. Although the Group does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on its financial position or results of operations, litigation is inherently unpredictable. Therefore, the Group could incur judgements or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period.

An indirect wholly-owned subsidiary of the Company has issued a fixed and floating debenture on all its assets and property and has mortgaged an aircraft as securities for its banking facilities of US$3,000,000 (equivalent to approximately HK$23,268,000). At 31 December 2016, this subsidiary had contingent liabilities up to US$1,420,000 (equivalent to approximately HK$11,014,000) in respect of certain guarantees issued by the bank under the banking facilities for the performance of certain service contracts of the subsidiary (2015: Nil).

Corporate Governance Report

INTRODUCTION

Frontier Services Group Limited (the "Company", together with its subsidiaries as the "Group") is firmly committed to the overall standards of corporate governance and has always recognised the importance of accountability, transparency and protection of shareholders' interest in general. The Company has adopted the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own corporate governance policy, subject to amendments from time to time.

COMPLIANCE WITH THE CG CODE

Throughout the year ended 31 December 2016, the Board of Directors (the "Board") of the Company has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions of the CG Code from time to time, with the exception of the following CG Code's code provisions:

(a) Chairman and Chief Executive

Under the CG Code's code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The previous Chief Executive Officer of the Company resigned with effect from 1 May 2016, which had left the position vacant until Dr Hua Dongyi ("Dr Hua") was appointed as the Acting Chief Executive Officer of the Company and filled the vacancy on 26 July 2016. Before the appointment of Dr Hua, the responsibilities of Chief Executive Officer of the Company was assumed by the Chairman of the Company. On 22 March 2017, Dr Hua has officially become the Chief Executive Officer of the Company.

(b) Responsibilities of Directors

Under the CG Code's code provision A.6.7, independent non-executive directors should attend general meetings. Certain independent non-executive directors were unable to attend the special general meeting of the Company on 8 April 2016 due to their other business commitments.

BOARD OF DIRECTORS

At the date of this annual report, the Board of the Company comprises 8 directors, including 5 executive directors (Mr Erik D. Prince (Chairman), Mr Ko Chun Shun, Johnson (Deputy Chairman), Mr Luo Ning (Deputy Chairman), Dr Hua Dongyi (Chief Executive Officer) and Mr Hu Qinggang) and 3 independent non-executive directors (Mr Yap Fat Suan, Henry, Professor Lee Hau Leung and Dr Harold O. Demuren).

The roles of the Chairman and the Chief Executive Officer are separate and are exercised by different individuals. One of the independent non-executive directors is a professional accountant, that is in compliance with the requirement of the Listing Rules. There are also 3 board committees under the Board, which are the Audit Committee, the Nomination Committee and the Remuneration Committee.

The key responsibilities of the Board include, among other things, formulating the Group's overall strategies, setting management targets, regulating and reviewing internal controls, formulating the Company's corporate governance policy, supervising management's performance while the day-to-day operations and management of the Group are delegated by the Board to management, and ensuring adequacy of resources, qualifications, experience and training programs and budget of the financial staff.

In accordance with the Company's Bye-laws, at each annual general meeting of the Company one-third of the directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation, provided that every director shall be subject to retirement by rotation at least once every three years.

Each of the independent non-executive directors is appointed for a specific term of not more than 3 years and is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-laws and the Listing Rules. To determine the non-executive directors' independence, assessments are carried out upon appointment, annually and at any other time where the circumstances warrant reconsideration by the Nomination Committee. The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board determined that all the independent non-executive directors meet the requirements for independence as set out in Rule 3.13 of the Listing Rules. Mr Luo Ning is an employee of CITIC Group Corporation, a substantial shareholder of the Company. There is no material relationship between each of the Board members.

Every newly appointed director will be given an induction so as to ensure that he/she has appropriate understanding of the Group's business and of his/her duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The directors may request the Company to provide independent professional advice at the Company's expense to discharge his/her duties to the Company. Directors' training is an ongoing process. During the year, the Company had provided to the directors regular updates and presentations on changes and developments to the Group's business and to the legislative regulatory environments in which the Group operates. All directors are also encouraged to attend relevant training courses at the Company's expense. All directors are required to provide the Company with their record of training they received during the year ended 31 December 2016.

During the year ended 31 December 2016, the Board has reviewed and monitored the training and continuous professional development of directors and senior management. The Board has also reviewed and ensured compliance of the relevant legal and regulatory requirements, the code of conducts, the CG Code and the disclosure in the Corporate Governance Report.

The directors acknowledge their responsibility for preparing the financial statements and ensuring that the financial statements are prepared as to give a true and fair view and on a going concern basis in accordance with the statutory requirements and applicable financial reporting standards.

Audit Committee

The Audit Committee currently comprises 3 independent non-executive directors, namely Mr Yap Fat Suan, Henry (Chairman), Professor Lee Hau Leung and Dr Harold O. Demuren.

Under its terms of reference, the Audit Committee is required, among other things, to oversee the relationship with the independent auditor, to review the Group's interim and annual consolidated financial statements, to monitor compliance with statutory and listing requirements, to ensure adequacy of resources, qualifications, experience and training programs and budget of the financial staff, and to engage independent legal or other advisers if necessary to perform investigations. The Audit Committee also takes up the role as a risk management committee of the Company and is responsible for facilitating the risk assessment process and timely communication with the Board where appropriate, and ensuring key business and operational risks are properly identified and managed.

During the year ended 31 December 2016, the Audit Committee, among other matters, reviewed reports from the independent auditor regarding the audit on annual consolidated financial statements and the review on non-exempt continuing connected transactions, discussed the risk management and internal control of the Group, and met with the independent auditor. The Audit Committee, acting as a risk management committee of the Company, reviewed the scope, extent and effectiveness of the Group's risk management and internal control systems. Further information is disclosed in the section titled "RISK MANAGEMENT AND INTERNAL CONTROL" below.

Nomination Committee

The Nomination Committee currently comprises 5 directors, namely Mr Erik D. Prince (Chairman), Mr Ko Chun Shun, Johnson, Mr Yap Fat Suan, Henry, Professor Lee Hau Leung and Dr Harold O. Demuren.

The terms of reference of the Nomination Committee have been determined with reference to the CG Code. Under its terms of reference, the Nomination Committee is responsible for identifying potential directors and making recommendations to the Board on the appointment or re-appointment of directors of the Company. Potential new directors are selected on the basis of their qualifications, skills and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board.

The Nomination Committee is also responsible for the review of the Board's diversity policy, considering factors including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service of board members, and review the measurable objectives that the Board has set for implementing the Board's diversity policy, and monitor the progress on achieving the measurable objectives.

Remuneration Committee

The Remuneration Committee currently comprises 5 directors, namely Professor Lee Hau Leung (Chairman), Mr Erik D. Prince, Mr Ko Chun Shun, Johnson, Mr Yap Fat Suan, Henry and Dr Harold O. Demuren.

The terms of reference of the Remuneration Committee have been determined with reference to the CG Code. Under the terms of reference of the Remuneration Committee, the responsibilities of the Remuneration Committee include, inter alia, assisting the Company in the administration of a formal and transparent procedure for developing remuneration policies, making recommendations to the Board on the remuneration packages of individual executive directors and senior management, and ensuring that no director or any of his/her associates is involved in deciding his/her own remuneration.

During the year ended 31 December 2016, the work performed by the Remuneration Committee includes, inter alia, the review of the Group's remuneration policy for its executive directors and senior management and their levels of remuneration.

BOARD DIVERSITY POLICY

In 2013, the Board adopted a board diversity policy (the "Policy") setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All board appointments are based on merit and contribution, and candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board. The Nomination Committee reviews the Policy on a regular basis and discusses any revisions that may be required, and recommends any such revisions to the Board for consideration and approval.

ATTENDANCE RECORDS AT MEETINGS

The attendance records of each director at the various meetings of the Company during the year ended 31 December 2016 are set out as below:

	Attended/Eligible to Attend					
	Annual general meeting	**Special general meeting**	**Board meetings**	**Audit committee meetings**	**Nomination committee meeting**	**Remuneration committee meetings**
Number of meetings	1	1	16	3	1	4
Executive Directors						
Mr Erik D. Prince	1/1	1/1	14/16	N/A	1/1	4/4
Mr Ko Chun Shun, Johnson	1/1	1/1	16/16	N/A	1/1	4/4
Mr Luo Ning	1/1	0/1	14/16	N/A	N/A	N/A
Dr Hua Dongyi (Note (i))	N/A	N/A	6/7	N/A	N/A	N/A
Mr Hu Qinggang	1/1	0/1	15/16	N/A	N/A	N/A
Mr Gregg H. Smith (Note (ii))	N/A	0/1	6/7	N/A	N/A	N/A
Independent Non-Executive Directors						
Mr Yap Fat Suan, Henry	1/1	1/1	15/16	3/3	1/1	4/4
Professor Lee Hau Leung	1/1	1/1	15/16	3/3	1/1	4/4
Dr Harold O. Demuren (Note (iii))	1/1	0/1	14/16	2/2	1/1	3/3
Mr William J. Fallon (Note (iv))	N/A	0/1	4/7	1/1	N/A	1/1

Notes:

(i) Dr Hua Dongyi was appointed as an executive director and the Acting Chief Executive Officer of the Company with effect from 26 July 2016. On 22 March 2017, he has officially become the Chief Executive Officer of the Company.

(ii) Mr Gregg H. Smith resigned as an executive director and the Chief Executive Officer of the Company with effect from 1 May 2016.

(iii) Dr Harold O. Demuren has been appointed as a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company with effect from 30 April 2016.

(iv) Mr William J. Fallon resigned as an independent non-executive director of the Company, a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company with effect from 30 April 2016.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to regulate the directors' securities transactions. Having made specific enquiry by the Company, all directors have confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions throughout the year ended 31 December 2016.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2016, all current directors have participated in continuous professional development as shown below:

Executive Directors	
Mr Erik D. Prince	Reading relevant materials in relation to listing rules update and corporate governance
Mr Ko Chun Shun, Johnson	Reading relevant materials in relation to listing rules update and corporate governance
Mr Luo Ning	Reading relevant materials in relation to listing rules update and corporate governance
Dr Hua Dongyi	Reading relevant materials in relation to listing rules update and corporate governance
Mr Hu Qinggang	Reading relevant materials in relation to listing rules update and corporate governance
Independent Non-Executive Directors	
Mr Yap Fat Suan, Henry	Reading relevant materials in relation to listing rules update and corporate governance
Professor Lee Hau Leung	Reading relevant materials in relation to listing rules update and corporate governance
Dr Harold O. Demuren	Reading relevant materials in relation to listing rules update and corporate governance

AUDITOR'S REMUNERATION

The Company engaged PricewaterhouseCoopers Hong Kong as its statutory auditor for the year ended 31 December 2016. The statement by the independent auditor of the Company and the Group regarding their reporting responsibilities on the financial statements of the Company and the Group is set out in the Independent Auditor's Report on pages 45 to 50 of this Annual Report.

The remuneration in respect of services provided by PricewaterhouseCoopers Hong Kong to the Group in 2016 is summarised as follows:

	HK$'000
Auditing services	2,685
Non-auditing services	
Fee for review of working capital	184
Fee for corporate governance reporting, and environmental, social and governance reporting	930
	3,799

COMPANY SECRETARY

The Company does not engage an external service provider as its Company Secretary. Mr Chan Kam Kwan, Jason, being the Company Secretary of the Company, has taken no less than 15 hours of relevant professional training during the year ended 31 December 2016.

RISK MANAGEMENT AND INTERNAL CONTROL

Responsibilities

The Board has the overall responsibility for setting forth proper risk management culture and risk appetite for the Group, evaluating and determining the level of risk that the Group should take and monitor regularly, and demonstrating openness, integrity and accountability to stakeholders in the decision-making process. The Board, through the Audit Committee, has also devoted to maintain sound and effective risk management and internal control systems in order to safeguard the assets, to achieve business objectives and to ensure compliance with relevant legislation and regulations. The Group's management continues to allocate resources for the design, implementation and monitoring of the risk management and internal control systems.

Control Framework

Risk Management Policy has been established to set forth the risk management framework and to maintain a consistent basis for the identification, analysis, evaluation, treatment, monitoring and reporting of risks at all levels across the Group to support the achievement of the Group's overall strategic objectives.

The Group has adopted the Enterprise Risk Management framework, which is published by the Committee of Sponsoring Organisations of the Treadway Commission (the "COSO") and involves identifying risks and opportunities that are relevant to the Group's objectives and organisational structure, evaluating those using appropriate qualitative and quantitative techniques, and formulating risk management plans that are consistent with the Group's risk appetite. The Group has chosen both top-down and bottom-up approaches in relation to risk management and internal control. It involves collating and appraising bottom-up input from the heads of all corporate departments, and senior management of business units of the Group, with refinements and adjustments through top-down input from the Board in an iterative manner.

With reference to the Internal Audit Manual of the Group, the Group's internal audit function has been established to provide risk-based and objective assurance, advice and insight to the Board through the Audit Committee. It also helps the Group accomplish its strategic objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes of the Group. To ensure that key risks are addressed, expectations are managed and results are properly communicated, the internal audit function maintains on-going communication with the Board, the Audit Committee, senior management, other assurance providers and employees during audit assignment planning, execution and wrap-up.

2016 Review

For the year ended 31 December 2016, the Group engaged an external consultant to run a benchmarking exercise of the Company's corporate governance practices against the CG Code and conducted a comprehensive risk assessment exercise amongst the senior management with an aim of identifying and prioritising the key risks perceived and faced by the Group. Certain key risks summarised in the form of a risk register were identified and categorised into strategic business, financial, operational and compliance aspects in a risk heat map in terms of impact and likelihood of occurrence. The internal audit function assessed the major changes in the organisational structure that occurred during the previous audit cycle and the changes that were planned for the coming audit cycle. Revisiting and updating the internal audit plan was considered for any major organisational changes.

Based on the reviews, the Board considered that (i) the Group's risk management and internal control systems were effective and adequate with reference to the COSO; and (ii) the Group had complied satisfactorily with the requirements of the CG Code in respect of risk management and internal control systems.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

The Board recognises the importance of effective communication with the shareholders and investors. The Company communicates with the shareholders and investors through various channels including investors' conferences, TV interviews, press releases, and publication of interim and annual reports, announcements, circulars and other corporate communications and publications available on the websites of The Stock Exchange of Hong Kong Limited and the Company.

The general meetings of the Company provide an opportunity for direct communication between the Board and the shareholders. The Company encourages the participation of the shareholders through annual general meetings and other general meetings where the shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. The Company shall arrange notices of meetings and circulars containing details on proposed resolutions to be sent to the shareholders. At general meetings, separate resolutions are proposed on each substantial issue, including the election of individual directors.

The Board always ensures that shareholders' and investors' views are heard and understood, and welcomes their questions and concerns relating to the Group's management and governance. The Company's website provides email address and telephone number to enable the shareholders to make any enquiries and concerns to the Board. Shareholders may also at any time send their enquiries and concerns to the Board by addressing to the Chief Executive Officer by post or by email. The contact details are set out in the Corporate Information section of this Annual Report.

Subject to Section 74 of the Companies Act 1981 of Bermuda (the "Act") and Bye-law 58 of the Bye-laws of the Company, shareholders holding in aggregate not less than 10% of the paid-up capital of the Company have the right, by written requisition to the Board or the Company Secretary of the Company, to request 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 three months after the deposit of such requisition. Any number of shareholders representing not less than 5% of the total voting rights of the Company on the date of the requisition or not less than 100 shareholders of the Company are entitled to put forward a proposal for consideration at a general meeting of the Company. Shareholders should follow the requirements and procedures as set out in Section 79 of the Act for putting forward such proposal at a general meeting.

There were no changes in the Company's constitutional documents during the year ended 31 December 2016.

Environmental, Social and Governance Report

ABOUT THE REPORT

This Environmental, Social and Governance ("ESG") report summarises the performance of Frontier Services Group Limited and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016.

This report covers the key operations of the Group in two differentiated services, namely distribution and warehousing, and aviation. The report is prepared in accordance with the ESG Reporting Guide under Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited issued by The Stock Exchange of Hong Kong Limited in 2015.

We believe that creating long-term value for stakeholders is important to our business viability. As a business with services spanning across several continents, the Group strives to engage with and gather the views from our vast range of stakeholders. These include our customers, employees, suppliers, investors and the broader community. Through various channels, such as conferences, interviews and surveys, we can pinpoint the key relevant issues that matter to our stakeholders and prioritise in our action plans to address them. The following sections of the report cover environmental protection, employment and labour practices, operating practices and community investment.

ENVIRONMENTAL PROTECTION

The Group is committed to operating sustainably through mitigating emissions, improving energy efficiency and reducing impacts to the environment.

Deployment of fuel-efficient technologies is a key focus of our environmental protection efforts. For example, at our ground logistics business, drag-reducing devices are installed on our own trucks to improve fuel efficiency, in which the expected fuel saving can reach up to 5%. These devices also help reduce direct greenhouse gas (GHG) emissions.

Waste is handled with care to make our processes greener. At our aviation business, controls and measures are applied to ensure proper waste management. For example, used oil from aircraft servicing and maintenance is siphoned into drums for storage and recycling by qualified vendors. We encourage proper waste segregation and storage in designated receptacles on our premises to facilitate material recovery and biological treatment.

The Group works to minimise the environmental impact of our operations by taking proactive measures. For instance, our flagship aviation business has relocated its full power engine runs to a designated area located on the southern end of Wilson Airport in Kenya, far from the neighbouring community and sensitive natural habitats. This step helps reduce the impact from air and noise emissions resulting from aircraft test runs and vehicle movements.

The Group aspires to raise staff awareness of environmental conservation by implementing green office practices. For example, we remind employees to turn off idle electrical appliances to avoid energy wastage. To lower paper consumption, double-sided printing and use of electronic documentation are encouraged. We also promote waste segregation by setting up recycling bins at our office premises.

The Group carries out regular reviews to evaluate and explore alternative eco-friendly measures and practices, so as to drive the sustainability performance of our logistics solutions to another level. Going forward, one of our plans is to invest more in energy-efficient technologies, such as replacing existing lighting systems with LED lamps at the premises of our aviation business.

EMPLOYMENT AND LABOUR PRACTICES

Employment

We believe that people is the foundation of our growth. Our human resources policies and procedures have set out key aspects such as compensation, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare. It is of high importance to attract qualified talent both from internal and external to support our business growth and integration.

The Group's remuneration mechanism is performance-based and competitive. In addition to basic salary, we provide other benefits to employees including medical insurance and retirement funds. Share option and share award schemes are in place to reward and differentiate performance. We review remuneration packages regularly to keep up with the market.

We are committed to providing our employees with an inclusive workplace that embraces and promotes diversity and equal opportunity. We have zero tolerance to harassment and discrimination of any form. Employees are hired and selected based on their merits regardless of their race, colour, age, religion, sex and national origin. For example, our flagship aviation business adopts a "Just Culture Policy" to ensure that all personnel are treated fairly. At our ground logistics business where we employ the most people, grievance procedures are in place to make sure that the concerns of our employees are heard and addressed in an equitable and fair manner.

Health and Safety

The Group prioritises occupational health and safety (OHS) in operating our businesses. We adopt proper procedures at the workplace to identify, mitigate and monitor risks related to health and safety. Hazard assessments and safety monitoring are carried out frequently; results are followed up in a timely manner for improvement in health and safety practices. Proper personal protective equipment and training are provided to employees. We protect the safety of our people and assets by undertaking scrupulous fire prevention measures, organising safety awareness workshops and providing firefighting training. Our flagship aviation business is certified by the Occupational Safety and Health Services under the Ministry of Health of the Republic of Kenya, in recognition of its achievements in upholding workplace safety.

We encourage and support employees to maintain work-life balance. In addition to subscribing to all standard aviation safety regulations, our flight operations have enhanced regimes around pre-flight rest and duty hours to further minimise OHS-related risks caused by fatigue.

Development and Training

We believe that talent development is the key to sustaining our competitive advantage and organic growth. Training programmes are set up at business level to support the day-to-day job functions. For instance, skills of the staff at our ground logistics business are honed with a focus on the operation of warehouse equipment. Highly customised training courses are available for pilots and engineers within our aviation business. The Group also provides support and assistant to staff for attending external training courses that are relevant to their areas of expertise, so as to facilitate employees' professional growth and career progression.

Labour Standards

The Group strives to adhere to applicable local and international labour standards and strictly prohibits the use of child or forced labour in its operations. Our suppliers and contractors are expected to attain the same standard in their labour practices.

OPERATING PRACTICES

Supply Chain Management

The Group works closely with its suppliers of goods and services to support and optimise its complete logistics solutions. We aspire to exert a positive influence over our suppliers to promote their awareness of sustainability and manage associated with our supply chain. These include those associated with environmental, social and governance practices. A scrupulous and rigorous process for supplier monitoring and screening has been implemented.

Product Responsibility

We serve our customers with provision of reliable services. For example, one of our aviation businesses has attained an ISO 9001-certified quality management system with a wide scope of provision of aviation logistics services, including worldwide charter flights and medical air ambulance charter. To maintain the reliability of our aviation services, we conduct forecast on capacity, demand patterns and customer requirements to address potential bottlenecks caused by hangar space, associated logistics and custom procedures.

We are dedicated to meeting and exceeding customers' expectations. During the year, in the performance assessment initiated by its customers, our major ground logistics business achieved a 100% performance score in maintaining excellent safety and hygiene conditions for the goods it handles.

A complaint handling mechanism is in place to address customers' concerns. Complaints are properly documented upon receipt and subsequently followed up in a timely and efficient manner. Once complaints are verified, compensation is provided to customers in accordance with the established procedures and with reference to prior cases.

Collected personal data is only accessible by authorised personnel and is handled in a confidential manner.

Anti-corruption

We maintain a high standard of anti-corruption measures and have zero-tolerance on any form of bribery, corruption or fraud. We have specified relevant requirements to all employees and anti-corruption training is provided to reduce relevant risks to the business. In addition, we established a whistle blowing mechanism for anti-corruption to provide a confidential channel to report on suspected irregularities.

COMMUNITY INVESTMENT

Creating value for our community is one of our commitments. We work closely with a number of charity organisations to reach out to the local communities. In the past, we supported Carolina for Kibera's Child Outreach Programme in Nairobi, Kenya, by participating in educational fieldtrips to promote children's awareness of conserving wildlife. Our business also partnered with Support Teacher Empowerment Trust to offer training to teachers of educational institutions for the disadvantaged youths. We equipped the teachers with necessary knowledge and skills to support and enlighten their students. Additionally, we helped to combat poverty and unemployment in South Africa, one of our major business locations. The initiative was carried out in collaboration with Phakamani Trust, a local non-profiting organisation aiming to empower rural young women.

During the year, we invited local schools to visit the premises of our aviation business in Kenya with an aim to stimulate students' interests in aviation and encourage them to pursue related careers. We also offered apprentice opportunities to provide students with real life experience in working in the aviation industry, and prepare them for their future career development.

REGULATORY COMPLIANCE

The Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to areas such as environmental protection, employment and labour practices and operating practices during the reporting period.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr Erik D. Prince, aged 47, has been appointed as an executive director and the Chairman of the Company since 10 January 2014. He is also a director of a subsidiary of the Company and the chairman of the Nomination Committee and a committee member of the Remuneration Committee of the Company. Mr Prince is a US-born entrepreneur, philanthropist, military veteran and private equity investor with business interests in Africa, Europe, the Middle East and North America in the fields of logistics, aviation services, manufacturing, natural resources development and energy. He is the founder and chairman of Frontier Resource Group, a private equity firm active across the African continent in areas such as exploration, mining and energy development. Mr Prince is the founder of Blackwater, a global private security company, which he sold in 2010 after successfully growing the company over the course of more than a decade into the premier provider of global security and logistics solutions to the United States Government and others. In addition, Mr Prince purchased Presidential Airways in 2003 and grew it from a one-plane operation into a global logistics and aviation business with over 70 fixed and rotary wing aircraft operating in Africa, the Middle East and North America; he sold the company in 2010. Mr Prince was educated at Hillsdale College. Upon graduation, he enlisted in the US Navy, where he served as a Navy SEAL officer until 1996.

Mr Ko Chun Shun, Johnson, aged 65, has been an executive director of the Company since 1998 and a Deputy Chairman of the Company since January 2014. He is also a director of various subsidiaries of the Company and is a committee member of the Nomination Committee and the Remuneration Committee of the Company. Mr Ko is a non-executive director of Yunfeng Financial Group Limited (formerly known as REORIENT GROUP LIMITED) and an executive director of KuangChi Science Limited, both of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In December 2016, he was appointed as an independent non-executive director, a committee member of the audit committee and the chairman of the remuneration committee of Meitu, Inc., which is listed on the Main Board of the Stock Exchange. Mr Ko has extensive experience in direct investment, merger and acquisition, TMT (Technology, Media and Telecom) and financial service.

Mr Luo Ning, aged 58, has been an executive director of the Company since October 2006 and a Deputy Chairman of the Company since January 2014. Mr Luo is currently an assistant president of CITIC Group Corporation, a substantial shareholder of the Company, a deputy-chairman of CITIC Guoan Group, the chairman and general manager of CITIC Networks Co., Ltd, and the chairman of CITIC Guoan Information Industry Company Limited (a public company listed on the Shenzhen Stock Exchange in the People's Republic of China ("PRC")). He is a non-executive director of Asia Satellite Telecommunications Holdings Limited and an executive director of CITIC Telecom International Holdings Limited, both of which are listed on the Main Board of the Stock Exchange. Mr Luo is also a non-executive director of Lajin Entertainment Network Group Limited, which is listed on the Growth Enterprise Market of the Stock Exchange. He also holds directorships in several other subsidiaries of CITIC Group Corporation. Mr Luo has extensive experience in telecommunication business and holds a Bachelor Degree in Communication Speciality from The Wuhan People's Liberation Army Institute of Communication Command in the PRC.

Dr Hua Dongyi, aged 52, has been appointed as an executive director and the Acting Chief Executive Officer of the Company since 26 July 2016. On 22 March 2017, he has officially become the Chief Executive Officer of the Company. He is also an executive director of VDM Group Limited, which is listed on the Australian Securities Exchange, and an independent non-executive director of Bank of China (New Zealand) Limited in Auckland, New Zealand. Dr Hua graduated from the Chengdu University of Technology (formerly known as Chengdu College of Geology) with a Bachelor Degree in Engineering in 1984, and also received his Master Degree and Doctoral Degree in Engineering from the China University of Geosciences in 1990 and 1996 respectively. Dr Hua has over 20 years' experience in international engineering project bidding, international contract management of consulting projects, project management, project evaluation, cost and risk management and planning, organising, implementing, operating of major infrastructure projects and constructing and developing of large mining projects.

Mr Hu Qinggang, aged 42, has been an executive director of the Company since October 2006. He is also a director of various subsidiaries of the Company. He has extensive experience in the finance field and had worked in the Finance Department of CITIC Group Corporation, a substantial shareholder of the Company, as the deputy director of the Finance and Planning Division. Mr Hu holds a Bachelor Degree in Economics from the Beijing University of Technology and a Master Degree in Economics from the University of International Business and Economics in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Yap Fat Suan, Henry, aged 71, has been an independent non-executive director of the Company since 2004. He is also the chairman of the Audit Committee, and a committee member of the Nomination Committee and the Remuneration Committee of the Company. Mr Yap holds a Master Degree in Business Administration from the University of Strathclyde, Glasgow, in the United Kingdom. He is a fellow member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He has extensive experience in finance and accounting. He retired as the managing director of Johnson Matthey Hong Kong Limited in June 2007 and prior to that appointment he was the general manager of Sun Hung Kai Development (China) Limited. He is also an independent non-executive director of Concord New Energy Group Limited, which is listed on the Main Board of the Stock Exchange, and Brockman Mining Limited, which is listed on the Main Board of the Stock Exchange and the Australian Securities Exchange.

Professor Lee Hau Leung, aged 64, has served as an independent non-executive director of the Company since 2014. He is also the chairman of the Remuneration Committee and a committee member of the Audit Committee and the Nomination Committee of the Company. Professor Lee is the Thoma Professor of Operations, Information and Technology at the Graduate School of Business at Stanford University. His areas of specialisation include supply chain management, information technology, global logistics system design, inventory planning, and manufacturing strategy. He is the founding and current co-director of the Stanford Value Chain Innovation Initiative. He was elected a member of the United States National Academy of Engineering in 2010. He obtained his Bachelor of Social Science degree in Economics and Statistics from The University of Hong Kong in 1974, his Master of Science degree in Operational Research from the London School of Economics in 1975, and his Master of Science and PhD degrees in Operations Research from the Wharton School of the University of Pennsylvania in 1983. He was awarded an Honorary Doctorate of Engineering degree by the Hong Kong University of Science and Technology in 2006 and an Honorary Doctorate from the Erasmus University of Rotterdam in 2008. Professor Lee is an independent non-executive director of 1010 Printing Group Limited and Global Brands Group Holding Limited, both of which are listed on the Main Board of the Stock Exchange. He is also an independent external director of Synnex Corporation, a public company listed on The New York Stock Exchange in the United States, and an independent non-executive director of Esquel Enterprises Limited, a private company based in Hong Kong.

Dr Harold O. Demuren, aged 71, has served as an independent non-executive director of the Company since 2014. He is also a committee member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Dr Demuren is an aeronautical engineer and the chief executive officer of Harold Demuren Consulting. With over 45 years of experience in both the public and private sectors of the aviation industry, Dr Demuren has been a strong proponent of aviation safety and security, especially advocating and spreading safety regulatory oversight on the African continent. He was the chief executive officer of Afrijet Airlines, a successful cargo airline, which had strategic alliances with foreign partners servicing Africa, Europe and the Americas from 1998 to 2005. He is the founder of Evergreen Apple Nigeria, the first fully integrated fixed based operations and maintenance facility hangar in Nigeria. He was appointed as the Director General of the Nigerian Civil Aviation Authority from 2005 to 2013 and was the first to provide vital information to the public on the failed attempt of the "Christmas Day Bomber" in 2009. He successfully attained US Federal Aviation Administration (FAA) Category One Certification for Nigeria and was the first African to be elected as the President of the International Civil Aviation Organisation (ICAO) General Assembly in Montreal in 2010. For his contribution to aviation safety globally, Dr Demuren has received numerous awards including the 2010 Laura Taber Barbour Air Safety Award and the 2014 FSF-Boeing Aviation Safety Lifetime Achievement Award from Flight Safety Foundation. Dr Demuren holds a Master of Science degree in Aeronautical Engineering from the Kiev Institute of Aeronautical Engineers in the former Soviet Union and a Doctor of Science degree in the field of gas turbines, specialising in aircraft jet engines, from the Massachusetts Institute of Technology (MIT).

SENIOR MANAGEMENT

Mr Charles H. Thompson, aged 46, has been the Chief Financial Officer of the Company since April 2014. He is also a director of various subsidiaries of the Company. Before joining the Group, he was a partner and the executive vice president of Hawke Aerospace Group, a rotary-wing aviation services business, and a managing director and shareholder of Edgeview Partners, a leading U.S. middle market investment banking advisory firm, now part of Piper Jaffray & Co. Mr Thompson has more than 20 years of industry experience in transportation and aviation through his tenure in operations, principal investing, investment banking and consulting. His network of relationships includes high-level contacts in New York, Washington, D.C., London, Abu Dhabi, Dubai, Johannesburg and Nairobi. He graduated from Colby College with a Bachelor of Arts Degree and earned a Master of Business Administration from Columbia University in New York City.

Mr David Whittingham, aged 36, is the Group Vice President, Head of Africa and oversees business development including sales, corporate development and merger and acquisition in addition to investor relations. For the past 13 years, he has been based in China working across the globe advising and consulting clients on joint ventures, overseas acquisitions, capital raising initiatives, and global market entry solutions. Mr Whittingham has a wealth of cross-border transaction and business development experience that includes advising many of China's largest state owned and private enterprises on acquisitions and market entry in the United States, Africa, Europe, Latin America and Hong Kong. Mr Whittingham began his finance career working for Cantor Fitzgerald in Hong Kong. He holds a Bachelor Degree of Art from Georgetown University in Political Economy and Chinese, and is fluent in Mandarin.

Mr Uldarico Ard Peregrino Jr., aged 47, is the Chief Security Officer of the Group and a director of various subsidiaries of the Company. He has advised the corporate and national security industries since 1994, and has managed complex, global security and logistics programs in Africa, the Middle East and Europe in various capacities over the past 20 years. Mr Peregrino began his career as a United States Marine. After completing his seven-plus years of service, Mr Peregrino entered the International Corporate Security industry, quickly progressing to managing large VIP security operations and developing critical training for close protection teams. He also served as a local law enforcement officer where he was awarded two "Valor Awards". He has published papers on many security topics and has participated in the international arena as a featured speaker for the corporate security industry and law enforcement.

Mr Chan Kam Kwan, Jason, aged 43, has been the Company Secretary of the Company since 2006. He is also a director of various subsidiaries of the Company. He graduated from the University of British Columbia in Canada with a Bachelor Degree in Commerce and holds a certificate of Certified Public Accountant issued by the Washington State Board of Accountancy in the United States. He has extensive experience in accounting and corporate finance.

Mr Fung Man Yin, Sammy, aged 57, is the Group Financial Controller of the Company and a director of various subsidiaries of the Company. He is a fellow member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. Mr Fung holds a Bachelor Degree in Economics and Accounting from the Newcastle University, England. Before joining the Company in October 2006, he worked with several international accounting firms and listed companies in England and Hong Kong for over 20 years.

Report of the Directors

The directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activities of Frontier Services Group Limited (the "Company") are investment holding and management. Details of the principal activities of the principal subsidiaries are set out in Note 16 to the consolidated financial statements.

An analysis of the performance of the Company and its subsidiaries (the "Group") for the year by operating segments is set out in Note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated income statement on page 51.

The Board of Directors (the "Board") of the Company does not recommend the payment of any dividend (2015: Nil) for the year.

BUSINESS REVIEW

A review of the business of the Group as required by Schedule 5 to the Hong Kong Companies Ordinance are set out in the Chairman's Statement and the Management Discussion and Analysis of this Annual Report. The review forms part of the Report of the Directors.

Description of the principal risks and uncertainties facing the Group are provided in the paragraph below.

Detailed discussions on the Group's environmental policies, relationships with its key stakeholders, and compliance with relevant laws and regulations which have a significant impact on the Group are set out in the Environmental, Social and Governance Report of this Annual Report. The discussions form part of the Report of the Directors.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group is exposed to various risks, including factors that are unique to the Group and the markets in which it operates, in addition to those risks that are shared by most other businesses. The Group has implemented a risk management and internal control framework to identify current and foreseeable risks at different levels of the Group in order to monitor and mitigate their adverse impacts.

The following discussion highlights the risks that are believed to be most germane to the Group at this time. Any or all of the Group's business, financial status, operations, personnel, and outlook may be adversely or, potentially, materially affected by the identified risks. The scope of the risks influencing the Group may exceed those presented herein, so the following is not intended to be comprehensive. Rather, the list of risks may include in the future unknown matters that ultimately have an impact, material or otherwise, on the Group.

Geopolitical Environment – The Group's core business is the provision of logistics, security and insurance services to customers operating across the One Belt One Road region from Asia to Africa. The Group's target geographies include many of the world's fastest growing markets. However, the orderly transition of elected leadership, especially within less developed countries, has been challenged at times, creating localised political risk. In addition, regional pockets of terrorism, often directed toward governments and related agencies, can compound the geopolitical risk inherent. Therefore, diversification, across end-markets, service capabilities and operating locations, is the cornerstone of the Group's process to mitigate geopolitical risk.

Economic Environment – The Group employs a strategy of diversification to hedge against cyclical downturns in geographic regions and specific end-markets. Nevertheless, the Group's regional markets, writ large, have been and will continue to be affected by commodity prices and balance-of-trade issues.

Compliance – Similar to the intrinsic geopolitical risk arising from operating in Africa, corruption is found in fast-growing markets. The Group rigorously adheres to all applicable anti-bribery statues of various jurisdictions and offers a thorough anti-corruption training program to all of its staff members to reduce the risk of corruption to the business.

Aviation – The Group has invested considerable resources into the development of its aviation capabilities. The global aviation market carries numerous inherent risks, from the safe operation of aircraft to the evolution of local regulatory policies. The Group follows all policies and procedures to ensure that its aviation operations are fully compliant with the relevant civil aviation authority and that it operates its fleet in the safest and most reliable manner.

Competition – The Group has endeavoured to be the first business to bring a complete logistics, security and insurance service solution to One Belt One Road markets. Within its primary aviation and logistics segment – air and ground – the Group faces strong competition from existing vendors specialising in one or more of the Group's lines of service. The Group continually adapts its tactical response to the ever-changing competitive landscape across its target markets. Combining security services with logistics, aviation and insurance offerings is a huge market differentiator.

Global Operations – The Group, headquartered in Hong Kong, now conducts operations in three continents, Asia, Africa and Europe. As a result, considerable ongoing coordination is required to manage the business in the most effective manner across multiple time zones and numerous geographies.

Financial – The Group operates across multiple jurisdictions and conducts business in multiple foreign currencies. The Group also has a substantial amount of collateralised debts. As such, the Group is exposed to foreign exchange trends, margin calls on secured debts and general liquidity risks. The Group monitors its cash position and overall near- and medium-term liquidity on a weekly basis, and makes all necessary adjustments to ensure that the business has a functioning capital structure.

Strategy – The Group is fully committed to its strategic development of an integrated logistics, security and insurance service offering. The execution of this vision requires great coordination among the Group's operating businesses, in addition to the cooperation of other potential partners. Further, the fulfillment of the Group's strategy may require the addition of new geographic or service capabilities, either through greenfield investment or corporate acquisition. While the Group proactively plans for these potential requirements, there are no assurances that the required investment opportunities will exist in the future.

Personnel – The Group's success is ultimately determined by its dedicated staff, and the ability to grow the business is predicated on the Group's ability to recruit, train, and retain highly qualified personnel who share a passion for the corporate vision. The loss of any key staff member or a failure to attract new personnel could have a negative and potentially material effect on the Group and its prospects.

Highly Regulated Business – The Group is subject to any number of national and local regulatory bodies by virtue of its global operations. Failure to comply with any one of the applicable regulatory regimes could have an adverse impact on the Group. Consequently, the Group expends substantial resources ensuring its businesses operate in a fully compliant manner, often with the assistance of third-party service providers who specialise in such matters.

SHARE CAPITAL, SHARE OPTIONS AND SHARE AWARD

Details of the movements in the share capital, share options and share award of the Company during the year ended 31 December 2016 are set out in Notes 30, 31 and 32 to the consolidated financial statements respectively.

RESERVES

The Company's distributable reserves as at 31 December 2016, which solely comprised contributed surplus, amounted to approximately HK$558,899,000 (2015: HK$558,899,000). Details of the movements in the reserves of the Group during the year are set out in Note 33 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year ended 31 December 2016 amounted to HK$531,000 (2015: HK$175,000).

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities, non-controlling interests and shareholders' equity of the Group for the last five financial years, as extracted from the audited consolidated financial statements, is set out on page 158 of the Annual Report. This summary does not form part of the audited consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or there is no restriction against such rights under the laws of Bermuda.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its listed securities during the year ended 31 December 2016. Neither the Company nor any of its subsidiaries, except the trustee of the share award scheme of the Company, has purchased or sold any of the Company's listed securities during the year ended 31 December 2016.

DIRECTORS

The directors of the Company during the year ended 31 December 2016 and up to the date of this report are:

Executive Directors

Mr Erik D. Prince ("Mr Prince")	
Mr Ko Chun Shun, Johnson	
Mr Luo Ning ("Mr Luo")	
Dr Hua Dongyi ("Dr Hua")	(appointed with effect from 26 July 2016)
Mr Hu Qinggang	
Mr Gregg H. Smith ("Mr Smith")	(resigned with effect from 1 May 2016)

Independent Non-Executive Directors

Mr Yap Fat Suan, Henry ("Mr Yap")	
Professor Lee Hau Leung	
Dr Harold O. Demuren	
Mr William J. Fallon ("Mr Fallon")	(resigned with effect from 30 April 2016)

Mr Smith resigned as an executive director and the Chief Executive Officer of the Company with effect from 1 May 2016 to focus on his other business engagements. Mr Smith has confirmed that he has no disagreement with the Board and he is not aware of any matters that need to be brought to the attention of the shareholders of the Company in relation to his resignation.

Mr Fallon resigned as an independent non-executive director, and a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company with effect from 30 April 2016 in order to pursue other business opportunities. Mr Fallon has confirmed that he has no disagreement with the Board and he is not aware of any matters that need to be brought to the attention of the shareholders of the Company in relation to his resignation.

In accordance with the Company's Bye-laws, Mr Prince, Mr Luo, Dr Hua and Mr Yap will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from all independent non-executive directors and considers them to be independent. Under the terms of their appointment, the independent non-executive directors are appointed for a specific term and are subject to retirement by rotation in accordance with the Company's Bye-laws.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws and subject to the statues, every director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in the execution of his office or otherwise in relation thereto. The Company has taken out and maintained insurance against the liability and costs associated with defending any proceedings which may be brought against the directors of the Company. The level of coverage is reviewed annually.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme and the share award scheme of the Company as set out in Notes 31 and 32 to the consolidated financial statements respectively and the preference shares issued by DVN (Group) Limited, a wholly-owned subsidiary of the Company, as set out in Note 34 to the consolidated financial statements, there were no other 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 entered into by the Company during the year ended 31 December 2016 or subsisted as at 31 December 2016.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

There were no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or its subsidiaries 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 year or at any time during the year ended 31 December 2016.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 30 to 33 of the Annual Report.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

At 31 December 2016, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations, as defined in Part XV of the Securities and Futures Ordinance (the "SFO") and as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long Positions in Shares and Underlying Shares of the Company

	Number of ordinary shares held				Number of underlying shares held		% of the issued share
Name of director	Personal interests	Family interests	Corporate interests	Total	Personal interests	Grand total	capital of the Company
Mr Prince	575,000	–	–	575,000	307,673,485 (Note (i))	308,248,485	24.99%
Mr Ko Chun Shun, Johnson ("Mr Ko")	–	2,040,816 (Note (ii))	223,776,719 (Note (iii))	225,817,535	–	225,817,535	18.30%
Dr Hua	–	–	–	–	12,337,030 (Note (iv))	12,337,030	1.00%
Mr Hu Qinggang ("Mr Hu")	9,814,000	–	–	9,814,000	–	9,814,000	0.80%
Mr Yap	–	–	–	–	1,400,000 (Note (iv))	1,400,000	0.11%
Professor Lee Hau Leung	1,400,000	–	–	1,400,000	–	1,400,000	0.11%
Dr Harold O. Demuren	1,400,000	–	–	1,400,000	–	1,400,000	0.11%

Notes:

(i) This represents Mr Prince's interest in the option for the rights to subscribe for up to 307,673,485 new shares of the Company, details of which are disclosed in Note 31 to the consolidated financial statements.

(ii) These shares were held by the spouse of Mr Ko.

(iii) This represents:

(a) the deemed interests of Mr Ko in the 48,276,719 ordinary shares of the Company held by First Gain International Limited under the SFO by virtue of his interests in First Gain International Limited; and

(b) the deemed interests of Mr Ko in the 175,500,000 ordinary shares of the Company held by Rich Hill Capital Limited under the SFO by virtue of his interests in Rich Hill Capital Limited.

(iv) These represent the share options of the Company granted to the respective directors under the Company's share option scheme, details of which are disclosed in Note 31 to the consolidated financial statements.

Save as disclosed above, at 31 December 2016, none of the directors had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations which had been recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the section titled "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" above and in the share option disclosed in Note 31 to the consolidated financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2016, other than the interests and short positions of the directors or chief executive of the Company as disclosed in the section titled "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" above, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long Positions in Shares and Underlying Shares of the Company

Name	Number of ordinary shares held: Direct beneficially owned	Number of ordinary shares held: Through controlled corporation	Number of ordinary shares held: Security interests	Number of ordinary shares held: Total	Number of underlying shares held: Through controlled corporation	Grand total	% of the issued share capital of the Company
Easy Flow Investments Limited	237,592,607	–	–	237,592,607	–	237,592,607	19.26%
CITIC Investment (HK) Limited	–	237,592,607 (Note (i))	–	237,592,607	–	237,592,607	19.26%
CITIC Corporation Limited	–	237,592,607 (Note (ii))	–	237,592,607	–	237,592,607	19.26%
CITIC Limited	–	237,592,607 (Note (iii))	–	237,592,607	–	237,592,607	19.26%
CITIC Group Corporation	–	237,592,607 (Note (iv))	–	237,592,607	–	237,592,607	19.26%
Rich Hill Capital Limited	175,500,000	–	–	175,500,000	–	175,500,000 (Note (v))	14.23%
Yunfeng Financial Group Limited (formerly known as REORIENT GROUP LIMITED) ("YFGL")	–	56,976,571	–	56,976,571	22,790,628	79,767,199 (Note (vi))	6.47%
FIL Limited	–	–	61,879,000	61,879,000	–	61,879,000	5.02%

Notes:

(i) CITIC Investment (HK) Limited is deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interests in Easy Flow Investments Limited.

(ii) CITIC Corporation Limited is deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interests in CITIC Investment (HK) Limited.

(iii) CITIC Limited is deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interests in CITIC Corporation Limited.

(iv) CITIC Group Corporation is deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interests in CITIC Limited. Mr Luo, a deputy chairman and an executive director of the Company, is an employee of CITIC Group Corporation.

(v) Mr Ko is deemed to be interested in the 175,500,000 shares of the Company held by Rich Hill Capital Limited under the SFO by virtue of his interests in Rich Hill Capital Limited. Such interest forms a part of the corporate interests in the ordinary shares of the Company interested by Mr Ko as set out in the section titled "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" above. Mr Ko is a director of Rich Hill Capital Limited.

(vi) This represents:

(a) the deemed interests of YFGL in the 56,976,571 ordinary shares of the Company held by REORIENT GLOBAL LIMITED ("RGlobal") under the SFO by virtue of its interests in RGlobal; and

(b) the deemed interests of YFGL in the 22,790,628 share options of the Company held by Reorient Financial Markets Limited ("RFML") under the SFO by virtue of its interests in RFML.

Save as disclosed above, at 31 December 2016, no other person (other than the directors or chief executive of the Company whose interests are set out in the section titled "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" above) had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 50% (2015: 52%) of the total sales for the year ended 31 December 2016 and sales to the largest customer included therein amounted to approximately 31% (2015: 17%). Purchases from the Group's five largest suppliers accounted for approximately 7% (2015: 21%) of the total purchases for the year ended 31 December 2016 and purchases from the largest supplier included therein amounted to approximately 4% (2015: 8%).

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own 5% or more of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers or suppliers.

CONNECTED TRANSACTIONS

During the year ended 31 December 2016, the Group conducted certain transactions with connected persons which constituted continuing connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These transactions are also regarded as related party transactions under applicable accounting principles, which are set out in Note 37 to the consolidated financial statements and with respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Continuing Connected Transactions

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out in Note 37(a)(i) to the consolidated financial statements and have confirmed that these continuing connected transactions were entered into:

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

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board of the Company engaged the independent auditor of the Company to report on the continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor has issued a letter containing the findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the letter has been provided to the Company for submission to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirmed that the Company has maintained at least 25% public float during the year as required under the Listing Rules.

EVENTS AFTER THE FINANCIAL POSITION DATE

Except for the placement of new shares of the Company on 13 March 2017 as set out in Note 30(ii) to the consolidated financial statements, the Group did not have any other material events occurred subsequent to the financial position date.

AUDITOR

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

On behalf of the Board

Erik D. Prince
Chairman

Hong Kong, 22 March 2017

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF FRONTIER SERVICES GROUP LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of Frontier Services Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 157, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement 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 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of 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. The key audit matter identified in our audit is related to goodwill, intangible assets and property, plant and equipment impairment assessment.

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill, intangible assets and property, plant and equipment impairment assessment *Refer to Note 4 (Critical accounting estimates and judgements), Note 14 (Property, plant and equipment) and Note 15 (Goodwill and other intangibles) to the consolidated financial statements* As at 31 December 2016, the Group had goodwill before impairment of HK$12,072,000 arising from the acquisitions of certain subsidiaries in the Aviation and Logistics Business segment ("AL Business Segment"). The goodwill is subject to an annual impairment assessment performed by management. In addition, the Group also owned, as at 31 December 2016, intangible assets and property, plant and equipment before impairment of HK$33,225,000 and HK$365,934,000, respectively. A significant portion of the intangible assets and property, plant and equipment relates to the AL Business Segment. These assets require an impairment assessment if an impairment indicator is identified.	Our procedures in relation to management's goodwill, intangible assets and property, plant and equipment impairment assessment included the following: We evaluated and challenged the composition of management's future cash flow forecasts used in their value-in-use calculations, and the process by which they were prepared. We found that the cash flow forecasts prepared by management were subject to oversight and review by the directors of the Company and was consistent with the board of directors of the Company approved budgets. We compared the current year actual results with the amounts included in the prior year cash flow forecast to consider the quality of management's forecasting, and we checked that management had considered the current year actual results in the preparation of this year's forecasts. We also inquired of management to understand the reasons for the deviation of the actual results for the current year from prior year forecast, comparing the explanations to our market knowledge and expectations, and checked that the relevant factors had been taken into account in this year's forecasts.

Key Audit Matter

The AL Business Segment has been loss making since becoming part of the Group in 2013 and recorded a operating loss of HK$126,960,000 for the year ended 31 December 2016. This represented an impairment indicator for the relevant intangible assets and property, plant and equipment.

Management performed an impairment assessment in respect of the goodwill and intangible assets of each AL Business Segment related Cash Generating Unit ("CGU") using the value-in-use method which involved significant judgement in determining the assumptions used in the calculations. The key assumptions include:

- annual and terminal growth rates;
- gross margin;
- capital expenditure for repairs and maintenance; and
- discount rate.

In relation to the impairment assessment of property, plant and equipment in each AL Business Segment related CGU, management determined the recoverable amount as the higher of value-in-use and fair value less costs of disposal, which was calculated by benchmarking against the price quotation of a comparable model in the second-hand market.

A provision for impairment of HK$9,970,000 and HK$28,206,000 was made for the goodwill and property, plant and equipment, respectively, for the year ended 31 December 2016. No provision for impairment on the intangible assets was considered necessary as at 31 December 2016.

How our audit addressed the Key Audit Matter

The procedures we performed over management's key assumptions used in the cash flow forecasts included:

- comparing annual growth rates and gross margin to historical actual figures;
- benchmarking the terminal growth rate against industry forecasts;
- comparing capital expenditure to the Group's approved budget and business plan; and
- benchmarking the discount rate against our research on the discount rate for comparable companies.

We performed sensitivity analysis around the key assumptions by calculating the degree to which these assumptions would need to change to trigger further material impairment. We determined that the calculation was most sensitive to the growth rates and discount rate assumptions, and we discussed and challenged management's view on the likelihood of such a change in the growth rates and discount rate.

In relation to the fair value less costs of disposal of property, plant and equipment, we checked, on a sample basis, the market price quotations for comparable property, plant and equipment identified by management to the relevant source. We also compared, on a sample basis, the key specifications, including the model, year of manufacture, equipment and modifications of the comparable property, plant and equipment with those owned by the Group to assess the suitability of the comparison. We also performed our own internet search, on a sample basis, on the fair value less costs of disposal of similar property, plant and equipment.

Key Audit Matter	How our audit addressed the Key Audit Matter
We focused on this area due to the significance of the balances and the significant judgements involved in the assessment of the recoverable amounts of the CGUs including the assumptions used in the calculation of value-in-use as well as the judgement required to identify suitable market comparable data to determine the fair value less costs of disposal of property, plant and equipment.	Based on the procedures performed, we found management's goodwill, intangible assets and property, plant and equipment impairment assessment to be supportable based on the available evidence.

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 the 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 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.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

We communicate with 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.

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 Chan Hin Gay Gabriel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2017

Consolidated Income Statement

For the year ended 31 December 2016

	Notes	**2016 HK$'000**	2015 HK$'000 (Restated)
Revenue	6	**576,889**	215,337
Cost of direct materials and job expenses	10	**(130,697)**	(113,216)
Cost of aircraft management services		**(48,134)**	–
Data costs		**(8,033)**	(8,714)
Employee benefit expenses	7	**(166,129)**	(116,763)
Sub-contracting charges		**(246,900)**	(46,755)
Operating lease rentals		**(18,014)**	(43,980)
Repairs and maintenance costs		**(42,948)**	(23,295)
Depreciation and amortisation	14, 15 & 20	**(34,115)**	(27,303)
Other income and other gains		**20,911**	1,598
Other operating expenses		**(84,743)**	(93,270)
Gain on disposal of available-for-sale financial assets	21	**10,712**	279,870
Provision for impairment of goodwill	15	**(9,970)**	(94,975)
Provision for impairment of property, plant and equipment, net	14	**(17,362)**	(66,118)
Operating loss		**(198,533)**	(137,584)
Interest income		**13,857**	21,610
Finance costs	8	**(23,339)**	(29,667)
Share of loss of associates	17	**(561)**	(443)
Loss before income tax		**(208,576)**	(146,084)
Income tax credit/(expenses)	9	**(910)**	3,164
LOSS FOR THE YEAR	10	**(209,486)**	(142,920)
Attributable to:			
Equity holders of the Company	33	**(209,816)**	(142,920)
Non-controlling interests		**330**	–
		(209,486)	(142,920)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	11		
Basic and diluted loss per share		**(17.06) cents**	(11.62) cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
LOSS FOR THE YEAR		**(209,486)**	(142,920)
Other comprehensive income/(loss)			
Items that have been reclassified or may be subsequently reclassified to profit or loss			
– Foreign exchange differences		**(21,350)**	(49,995)
– Change in value of available-for-sale financial assets	21	**(11,815)**	279,433
– Realisation of equity instrument reserve upon disposal of available-for-sale financial assets	33	**(10,910)**	(283,399)
Other comprehensive loss for the year, net of tax		**(44,075)**	(53,961)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(253,561)**	(196,881)
Attributable to:			
Equity holders of the Company		**(253,879)**	(196,881)
Non-controlling interests		**318**	–
		(253,561)	(196,881)

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	**2016** **HK$'000**	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**337,728**	415,702
Goodwill and other intangibles	15	**35,327**	40,088
Interests in associates	17	**7,185**	8,462
Pledged bank deposits	25	**66,070**	230,848
Restricted cash	25	**5,045**	2,690
Deferred income tax assets	18	**5,345**	4,031
Non-current prepayments	19	**28,348**	32,051
Prepaid operating lease rentals	20	**1,393**	1,438
Available-for-sale financial assets	21	**61**	90
Total non-current assets		**486,502**	735,400
CURRENT ASSETS			
Inventories	22	**6,183**	9,644
Trade receivables	23	**87,480**	58,376
Prepayments, deposits and other receivables	24	**77,414**	49,759
Tax receivables		**960**	320
Available-for-sale financial assets	21	**1,281**	31,000
Restricted cash	25	**9,991**	4,581
Pledged bank deposits	25	**150,138**	228,722
Short-term bank deposits	25	**–**	2,229
Cash and cash equivalents	25	**68,144**	223,365
		401,591	607,996
Assets held for sale		**24,374**	6,317
Total current assets		**425,965**	614,313

Consolidated Statement of Financial Position
As at 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
CURRENT LIABILITIES			
Trade payables	26	**79,134**	36,713
Other payables and accruals	27	**49,735**	47,605
Borrowings	28	**187,681**	235,857
Tax payables		**465**	3,170
Total current liabilities		**317,015**	323,345
Net current assets		**108,950**	290,968
Total assets less current liabilities		**595,452**	1,026,368
NON-CURRENT LIABILITIES			
Borrowings	28	**129,103**	307,636
Deferred income tax liabilities	18	**60,455**	75,737
Other long-term liabilities	33	**6,963**	–
Total non-current liabilities		**196,521**	383,373
Net assets		**398,931**	642,995
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	30	**123,370**	122,950
Reserves	33	**152,033**	403,795
		275,403	526,745
Non-controlling interests	34	**123,528**	116,250
Total equity		**398,931**	642,995

Signed on behalf of the Board on 22 March 2017 by

Erik D. Prince
Director

Hua Dongyi
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Note	Attributable to equity holders of the Company				
		Share capital HK$'000	Reserves HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2015		122,950	581,008	703,958	116,250	820,208
Comprehensive loss						
Loss for the year		–	(142,920)	(142,920)	–	(142,920)
Other comprehensive income/(loss)						
Foreign exchange differences		–	(49,995)	(49,995)	–	(49,995)
Change in value of available-for-sale financial assets	21	–	279,433	279,433	–	279,433
Realisation of equity instrument reserve upon disposal of available-for-sale financial assets	33	–	(283,399)	(283,399)	–	(283,399)
Other comprehensive loss for the year, net of tax		–	(53,961)	(53,961)	–	(53,961)
Total comprehensive loss for the year		–	(196,881)	(196,881)	–	(196,881)
Transactions with equity holders						
Share-based compensation		–	19,668	19,668	–	19,668
At 31 December 2015		122,950	403,795	526,745	116,250	642,995

Consolidated Statement of Changes in Equity
For the year ended 31 December 2016

	Note	Attributable to equity holders of the Company				
		Share capital HK$'000	Reserves HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016		**122,950**	**403,795**	**526,745**	**116,250**	**642,995**
Comprehensive loss						
Loss for the year		–	(209,816)	(209,816)	330	(209,486)
Other comprehensive loss						
Foreign exchange differences		–	(21,338)	(21,338)	(12)	(21,350)
Change in value of available-for-sale financial assets	21	–	(11,815)	(11,815)	–	(11,815)
Realisation of equity instrument reserve upon disposal of available-for-sale financial assets	33	–	(10,910)	(10,910)	–	(10,910)
Other comprehensive loss for the year, net of tax		–	(44,063)	(44,063)	(12)	(44,075)
Total comprehensive loss for the year		–	(253,879)	(253,879)	318	(253,561)
Acquisition of subsidiaries		–	–	–	6,960	6,960
Disposal of subsidiaries		–	(8,202)	(8,202)	–	(8,202)
Transactions with equity holders						
Share-based compensation		–	21,477	21,477	–	21,477
Exercise of share options		420	3,653	4,073	–	4,073
Symmetrical put and call option	13	–	(6,963)	(6,963)	–	(6,963)
Shares acquired for share award scheme		–	(7,848)	(7,848)	–	(7,848)
		420	2,117	2,537	6,960	9,497
At 31 December 2016		**123,370**	**152,033**	**275,403**	**123,528**	**398,931**

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	35	**(161,788)**	(173,837)
Income tax paid		**(3,713)**	(5,545)
Net cash used in operating activities		**(165,501)**	(179,382)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	14	**(4,862)**	(163,421)
Purchase of intangibles	15	**–**	(1,350)
Proceeds from disposal of property, plant and equipment	35	**11,763**	18,559
Proceeds from disposal of assets held for sale		**4,650**	–
Acquisition of subsidiaries, net of cash acquired		**8,337**	(36,115)
Decrease in short-term bank deposits		**–**	31
Interest received		**20,519**	3,276
Proceeds from redemption of available-for-sale financial assets	21	**29**	10
Net proceeds from disposal of available-for-sale financial assets		**17,706**	315,056
Disposal of subsidiaries, net of cash disposed	35	**(4,842)**	–
Net cash generated from investing activities		**53,300**	136,046
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(20,461)**	(29,109)
Decrease/(increase) in pledged bank deposits		**223,553**	(74,608)
Increase in restricted cash		**(7,765)**	(7,271)
Purchase of shares for share award scheme		**(7,848)**	–
Proceeds from exercise of share options		**4,073**	–
Repayment of bank loans		**(422,130)**	–
Drawdown of bank loans		**206,390**	66,923
Drawdown of finance leases		**–**	41,984
Repayment of capital element of finance leases		**(15,002)**	(2,459)
Net cash used in financing activities		**(39,190)**	(4,540)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(151,391)**	(47,876)
Cash and cash equivalents at beginning of the year		**223,365**	283,295
Exchange differences		**(3,830)**	(12,054)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25	**68,144**	223,365

1 GENERAL INFORMATION

Frontier Services Group Limited (the "Company") is a limited liability company incorporated in Bermuda. The address of its principal place of business is Suite 3902, 39th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong. The Company and its subsidiaries (together, the "Group") are principally engaged in the provision of aviation and logistics services and the provision of online financial market information. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") of the Company on 22 March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), a collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). These consolidated financial statements comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The consolidated financial statements have been prepared under the historical cost convention, as modified by (i) the revaluation of available-for-sale financial assets and derivative financial instruments, which are carried at fair value and (ii) the assets held for sale which are measured at fair value less cost of disposal. The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of Preparation *(Continued)*

In addition, the Group previously presented the analysis of expenses recognised in the consolidated income statement based on their function. With effect from 1 January 2016, the Group revised its accounting policy to present the analysis of expenses based on their nature to effectively assess the operation efficiency of the Group by focusing on analysing the nature and fluctuation on each major operation cost and identifying corresponding cost control opportunities. This change provides more relevant information to the users of the financial statements by enhancing the comparability of the Group's consolidated financial statements with those of its peers. The changes in presentation have been adopted retrospectively, and certain comparative figures have been restated.

Impact of new, amended and revised HKFRSs

In the current year, the Group has adopted all the new and amended HKFRSs, a collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA which are mandatory and relevant to the Group's operations for the accounting period beginning on 1 January 2016. The adoption of these new and amended HKFRSs does not have any material impact on the Group's financial statements for the year.

The following new and amended HKFRSs have been issued, but are not effective for the Group's accounting period beginning on 1 January 2016 and have not been adopted early:

HKAS 7 (Amendments)	Disclosure Initiative
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 9 (2014)	Financial Instruments
HKFRS 10 (Amendments) and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendments)	Clarifications to HKFRS 15
HKFRS 16	Leases

The adoption of HKAS 7 (Amendments), HKAS 12 (Amendments), HKFRS 2 (Amendments), HKFRS 9 (2014) and HKFRS 10 (Amendments) and HKAS 28 (Amendments) would not have any significant impact on the Group's results of operations and financial position.

HKFRS 15 will primarily affect the Group's revenue recognition as it will replace HKAS 18 which covers contracts for goods and services. Management is currently assessing the effects of adopting HKFRS 15 on the Group's consolidated financial statements and has identified that revenue from rendering of service is likely to be affected. The adoption of HKFRS 15, which addresses the identification of separate performance obligations, could affect the timing of revenue recognition. At this stage, it is not practicable to provide the quantitative impact of HKFRS 15 as at the date of publication of these consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of Preparation *(Continued)*

Impact of new, amended and revised HKFRSs *(Continued)*

HKFRS 16 will primarily affect the accounting for the operating leases of the Group as lessee, not as lessor. At 31 December 2016, the Group had non-cancellable operating lease commitments of HK$66,845,000 (Note 36(b)). Upon adoption of HKFRS 16, the majority of operating lease commitments will be recognised in the consolidated statement of financial position as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortised cost and the right-of-use assets will be depreciated on a straight-line basis during the lease terms.

There are no other new, amended or revised HKFRSs that are not yet effective that are expected to have any impact on the Group.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement" in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, investments in subsidiaries are accounted for at cost less impairment losses (Note 2.8). Cost includes direct attributable cost of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is as transactions with the owners in their capacity as owners. The difference between the fair value of any consideration paid/received and the relevant share of the carrying amount of net assets of the subsidiary acquired/disposed of is recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent 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 Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recognised in profit or loss.

(b) Associates

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss (Note 2.8). Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(b) Associates *(Continued)*

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Goodwill

Goodwill is initially measured as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying amount of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker of the Group. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of the Company that makes strategic decisions.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group entities 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 currency and the Group's 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 income statement.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement within "finance costs". All other foreign exchange gains and losses are presented in the consolidated income statement within "other operating expenses".

Foreign exchange differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign Currency Translation *(Continued)*

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary 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 statement of financial position presented are translated at the closing rate at the financial position date;

(ii) Income and expenses for each income statement are translated at average exchange rate (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 dates of the transactions); and

(iii) All resulting exchange 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. Foreign exchange differences arising are recognised in other comprehensive income.

On the disposal of a foreign operation (that is, a disposal of the Group's 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 foreign exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are recognised in profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated foreign exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated foreign exchange differences is reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. 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 Group 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 income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment, which is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, is provided at the following annual rates:

Leasehold properties	Over the remaining life of the lease (45 years commencing 2004)
Leasehold improvements	Over the shorter of the term of the lease (45 years commencing 2004) and the estimated useful life
Hangars	2.5%
Aircraft and aviation equipment	5% to 10%
Plant, machinery and tooling	10% to 38%
Trucks, trailers and containers	8% to 20%
Motor vehicles	18% to 20%
Office equipment	12.5% to 33%
Furniture and fixtures	12.5% to 25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each 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 (Note 2.8).

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised within "other income and other gains" in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Other Intangibles

Other intangibles with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Other intangibles with indefinite useful lives are not amortised.

Amortisation of other intangibles, which is calculated using straight-line method to allocate their costs over their estimated useful lives, is provided at the following basis:

Operating certificates and trademark	Over the estimated useful lives of 9 to 15 years
Non-compete agreements	Over the non-compete periods of 4 to 6 years

Management reviews the expected useful live at each financial position date based on the estimated period over which future economic benefits will be received by the Group and takes into account the level of future competition, the risk of technological or functional obsolescence of the assets, and the expected changes in the market.

Other intangibles are derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of other intangibles are measured at the difference between the net disposal proceeds and the carrying amount of the assets and are recognised with "other income and other gains" in the consolidated income statement in the period when the assets are derecognised.

2.7 Non-Current Prepayments

Prepayments for engine overhaul and maintenance costs of aircraft are recorded as non-current prepayments as it is not expected to be utilised within twelve months and management has discretion over whether or not these costs have to be incurred. Upon consumption, these prepayments are charged to the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Impairment of Non-Financial Assets, and Interests in Subsidiaries, Associates

Non-financial assets which have an indefinite useful life – for example, goodwill or intangible asset not ready to use – are not subject to amortisation but are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Non-financial assets which 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 asset's 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 (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each financial position date.

Impairment testing of the interests in subsidiaries is required upon receiving dividends 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.

The Group determines at each financial position date whether there is any objective evidence that the interest in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying amount and recognises the amount in the profit or loss.

2.9 Non-Current Assets Held for Sale

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than interests in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial Assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the financial position date classified as non-current assets. The Group's loans and receivables comprise trade receivables, deposits and other receivables, and cash and bank balances in the consolidated statement of financial position.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of other categories. They are included in non-current assets unless the financial asset matures or management intends to dispose of it within twelve months after the financial position date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial Assets *(Continued)*

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "other income and other gains/(losses), net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of "other income and other gains/(losses), net" when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as "gains on disposal of available-for-sale financial assets".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of "other income and other gains/(losses), net". Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of "other income and other gains/(losses), net" when the Group's right to receive payments is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial Assets *(Continued)*

(b) Recognition and measurement *(Continued)*

Financial assets and liabilities are offset and the net amount is 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 enforceable right must not be contingent on future events 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.

(c) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired or have been legally transferred and the Group has transferred substantially all the risks and rewards of the financial asset.

2.11 Impairment of Financial Assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a 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 a group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

(i) Significant financial difficulty of the issuer or obligor;

(ii) A breach of contract, such as default or delinquency in interest or principal payments;

(iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Impairment of Financial Assets *(Continued)*

(a) Assets carried at amortised cost *(Continued)*

(iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) The disappearance of an active market for that financial asset because of financial difficulties; or

(vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- adverse changes in the payment status of borrowers in the portfolio; and
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

For loans and receivables category, 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 the consolidated income statement. 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 Group 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 the consolidated income statement.

Impairment testing of trade and other receivables is described in Note 2.14.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Impairment of Financial Assets *(Continued)*

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria set out in Note 2.10(a) above. 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 also evidence that the assets are impaired. If any such evidence exists 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 the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases 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 the consolidated income statement.

2.12 Financial Liabilities

(a) Classification

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. The Group's financial liabilities include trade payables, other payables and accruals, borrowings and other financial liabilities.

(b) Recognition and measurement

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are recognised initially at fair value, in the case of a financial liability not at fair value through profit or loss, less transaction costs that are directly attributable to the issue of the financial liability.

(c) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Inventories

Inventories, mainly represent spare parts and consumables for aircraft maintenance, are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and Other Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets, except for those with maturities greater than twelve months after the financial position date are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the receivables is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within "other operating expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the consolidated income statement.

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 Share Capital

Ordinary shares are classified as equity.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables 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) after the financial position date. 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.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement 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.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the financial position date.

2.19 Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, 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 directly in equity respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the financial position date in the countries where the Group's subsidiaries, associates and joint ventures 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 and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and Deferred Income Tax *(Continued)*

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 income tax liabilities are not recognised if they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, 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 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.

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

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Employee Benefits

(a) Pension obligations

The Group participates in several defined contribution plans, under which the Group pays fixed contributions into separate entities. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employees' services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, including any market performance conditions (for example, an entity's share price) and excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each financial position date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

When the options are exercised, the option issuer issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The Group recognises the effects of modifications that increase the total fair value of the share-based compensation arrangement or are otherwise beneficial to the employees. The Group shall include the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Employee Benefits *(Continued)*

(b) Share-based compensation *(Continued)*

If the Group cancels or settles a grant of equity instruments during the vesting period, the Group should treat this as an acceleration of vesting and recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

The grant by the Company of options over its equity instruments to the employees of the subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to interests in subsidiaries, with a corresponding credit to the Company's equity.

(c) Share award scheme

The fair value of the share awards granted to employees or directors is recognised as an expense with a corresponding increase in credit to share-based compensation reserve. The fair value is measured with reference to the Company's share price at grant date taking into account the terms and conditions upon which the share awards are granted. Where the vesting conditions are met before becoming unconditionally entitled to the share awards, the total estimated fair value of the share awards is spread over the vesting period, taking into account the probability that the share awards will be vested.

During the vesting period, the number of share awards which are expected to be vested is reviewed. Any resulting adjustment to the cumulative far value recognised in prior years is charged/credited to the consolidated income statement for the year of the review.

Upon vesting, the amount recognised as an expense is credited to shares held for share award scheme and debited to share-based compensation reserve.

When the share award is cancelled, it is treated as if it were vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Employee Benefits *(Continued)*

(d) Employee leave entitlement and long service payment

Employee entitlements to annual leave and long service payment are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the reporting date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(e) Bonus plans

The Group recognises a liability and an expense for bonuses, based on performance and takes into consideration the profit attributable to the Company's shareholders. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(f) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination 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 their present value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Provisions and Contingent Liabilities

(a) Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the pre-tax expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(b) Contingent Liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to consolidated financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, it will then be recognised as a provision.

2.22 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and discounts, and after eliminating sales within the Group.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Revenue Recognition *(Continued)*

(a) Rendering of services

Service fee income in relation to the provision of aviation and logistics services, freight forwarding, ground logistics and warehousing services, and aircraft management services is recognised in the accounting period in which the services are rendered and revenue can be reliably measured.

Maintenance income arises from the provision of aircraft maintenance services, which include repairs of aircraft, periodic servicing and painting work. Income is recognised in the accounting period in which the services are rendered by reference to the stage of completion of the specific transaction, based on the actual maintenance work performed and spare parts consumed.

Service fee income in relation to the provision of financial market information is recognised on a straight-line basis over the period of the service contract.

(b) Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer.

(c) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(d) Rental income

Rental income from leasing of the Group's leasehold properties is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

(e) Leasing income

Revenue from the leasing of aircraft is recognised in accordance with the respective agreements over the period the services are rendered.

(f) Reimbursement income

Reimbursement income of disbursement recharge is recognised when the service is performed and purchase invoices are received from respective supplier.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Borrowing Costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

2.24 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

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.

(a) Prepaid land lease payments under operating leases

Leasehold interests in land are up-front payments to acquire the land use rights. The payments are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to amortise the up-front payments over the lease terms.

(b) The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement 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 as an expense on a straight-line basis over the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Leases *(Continued)*

(c) The Group as lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment held under finance leases are recognised as assets of the Group at fair values at inception of the lease or, if lower, at the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term. 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 charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the consolidated income statement.

2.25 Related Parties

A person or entity is considered to be related to the Group if:

(a) a person or a close member of that person's family (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group;

(b) the entity and the Group are members of the same group, which means that each parent, subsidiary and fellow subsidiary is related to the others;

(c) one entity is an associate or joint venture of the other entity or an associate or joint venture of a member of a group of which the other entity is a member;

(d) both entities are joint ventures of the same third party;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Related Parties *(Continued)*

(e) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(f) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(g) the entity is controlled or jointly controlled by a person identified in (a); or

(h) a person identified in (a) has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity.

2.26 Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair values with resulting gain or loss recognised in profit or loss.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial Risk Factors

The Group is exposed to a variety of financial risks which result from its operating, investing and financing activities. Management periodically analyses and reviews measures to manage the Group's exposure to market risk (including foreign currency risk, cash flow and fair value interest rate risk, equity price risk and fuel price risk), credit risk and liquidity risk. Generally, the Group employs a conservative strategy regarding its risk management and has not used any derivatives or other instruments for hedging purposes.

At 31 December 2016, the Group's financial instruments mainly consisted of trade receivables, deposits and other receivables, cash and bank balances, bank loans, finance lease payables, other loan, trade payables, other payables and accruals, and available-for-sale financial assets.

(a) Market risk

(i) Foreign currency risk

The Group currently operates mainly in Hong Kong, Africa, Malta and mainland China.

For operations in Hong Kong, most of the transactions are denominated in HK$ and United States dollars ("US$"). The exchange rate of US$ against HK$ is relatively stable and the related currency exchange risk is considered minimal.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial Risk Factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign currency risk *(Continued)*

For operations in Africa, most of the transactions are denominated in US$, Kenyan Shillings ("KES") and South African Rand ("ZAR"). No financial instrument was used for hedging purposes for the year due to the prohibitive cost of available hedging opportunities. The Group is closely monitoring the currency exchange risk of KES and ZAR and will consider the use of financial instrument for hedging purposes, if necessary.

For operations in Malta, most of the transactions are denominated in Euro ("EUR") and US$. No financial instrument was used for hedging purposes for the year. The Group is closely monitoring the currency exchange risk of EUR and will consider the use of financial instrument for hedging purposes, if necessary.

For operations in mainland China, most of the transactions are denominated in Renminbi ("RMB"). The conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange controls promulgated by the Chinese government. The exchange rate of RMB has devalued since August 2015. No financial instrument was used for hedging purposes for the year. During the year ended 31 December 2016, the Group has substantially reduced its exposure to the currency exchange risk of RMB through the disposal of a subsidiary incorporated in mainland China. The Group is closely monitoring the currency exchange risk of RMB and is looking for any opportunities to mitigate the currency exchange risk of RMB.

At 31 December 2016, if KES had weakened/strengthened by 2% (2015: 5%) against HK$ with other variables held constant, the Group's loss after tax and accumulated losses would have been approximately HK$1,099,000 (2015: HK$2,219,000) higher/lower.

At 31 December 2016, if ZAR had weakened/strengthened by 10% (2015: N/A) against HK$ with other variables held constant, the Group's loss after tax and accumulated losses would have been approximately HK$478,000 (2015: N/A) higher/lower.

At 31 December 2016, if EUR had weakened/strengthened by 3% (2015: 3%) against HK$ with other variables held constant, the Group's loss after tax and accumulated losses would have been approximately HK$123,000 (2015: HK$98,000) higher/lower.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial Risk Factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Cash flow and fair value interest rate risk

The Group's cash flow and fair value interest rate risk arises from bank balances and deposits and borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by bank balances and deposits held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. During the year ended 31 December 2016, the Group's borrowings were denominated in US$, EUR and ZAR (2015: US$ only). The Group has not used any derivative financial instruments to hedge its cash flow and fair value interest rate risk.

At 31 December 2016, if interest rate had increased/decreased by 50 basis points (2015: 25 basis points) with all other variables held constant, the Group's loss after tax and accumulated losses would have been approximately HK$263,000 higher/lower (2015: HK$90,000 higher/lower).

The sensitivity analysis above had been determined assuming that the change in interest rates had occurred at the financial position date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date, and that all other variables had remained constant. The stated increase/decrease represented management's assessment of reasonably possible changes in interest rates over the period until the next annual financial position date. The analysis was performed on the same basis for 2015.

(iii) Securities price risk

The Group is exposed to equity securities price risk for the listed equity investment held by the Group which is classified as available-for-sale financial assets (Note 21).

At 31 December 2016, if equity price of the respective equity investments had increased/decreased by 10% (2015: 10%) with all other variables held constant, the Group's equity instrument reserve would have been approximately HK$128,000 (2015: HK$3,109,000) higher/lower.

(iv) Fuel price risk

The Group is not materially exposed to market price risk from the procurement of fuels for the aircraft and truck fleet because it is not a major cost component to the Group's operating expenses.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial Risk Factors *(Continued)*

(b) Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the respective notes to the consolidated financial statements. The Group's exposure to credit risk is mainly related to its trade receivables, deposits and other receivables, and cash and bank balances.

Trade receivables are presented net of the provision for impairment. Credit risks and exposures are controlled and monitored on an ongoing basis by performing individual credit evaluations for all customers. These evaluations focus on the customer's past history of making payments when due and the current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. In addition, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable amounts.

Majority of bank balances of the Group is generally placed in short to medium term deposits and investments with reputable banks.

(c) Liquidity risk

The Group implements a prudent liquidity risk management to regularly monitor current and expected liquidity requirements for maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet its liquidity requirements in the short and long term.

Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit facilities available from various banks if necessary. The liquidity risk of the Group is primarily attributable to trade payables, other payables and accruals, bank loans, obligations under finance leases and other loan.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial Risk Factors *(Continued)*

(c) Liquidity risk *(Continued)*

The amounts of the contractual undiscounted cash flows of the financial liabilities were summarised as follow:

	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 5 years HK$'000	Total HK$'000
At 31 December 2016				
Trade payables	**79,134**	**–**	**–**	**79,134**
Other payables and accruals	**–**	**36,811**	**–**	**36,811**
Borrowings	**–**	**197,919**	**140,147**	**338,066**
Other long-term liabilities	**–**	**–**	**6,963**	**6,963**
	79,134	**234,730**	**147,110**	**460,974**
At 31 December 2015				
Trade payables	36,713	–	–	36,713
Other payables and accruals	–	39,216	–	39,216
Borrowings	–	244,914	338,922	583,836
	36,713	284,130	338,922	659,765

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital Management

The Group regards its total equity as capital. The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders to support the Group's sustainable growth and to maintain an optimal capital structure to reduce the cost of capital.

The Group reviews and manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares, raise new debt financing or sell assets to reduce debt. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 2015. The Group is not subject to any externally imposed capital requirements.

The Group monitors its capital structure on the basis of a total liabilities-to-total assets ratio, which shows the proportion of the Group's assets being financed through debt. During the year ended 31 December 2016, the Group's strategy was to maintain the total liabilities-to-total assets ratio around 50% (2015: 50%). The total liabilities-to-total assets ratio at 31 December 2016 was as follows:

	2016 **HK$'000**	2015 HK$'000
Total liabilities	**513,536**	706,718
Total assets	**912,467**	1,349,713
Total liabilities-to-total assets ratio	**56%**	52%

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair Value Estimation

The different levels of financial instruments carried at fair value have been defined as follows:

(a) Quoted prices (unadjusted) in active market for identical assets or liabilities (level 1);

(b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and

(c) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of the available-for-sale financial assets at 31 December 2016 with respect to the listed investments amounting to HK$1,338,000 (2015: HK$31,086,000) is based on the quoted market prices of the listed investments. The instruments are included in level 1 at 31 December 2016 (2015: Same).

The fair value of the available-for-sale financial assets at 31 December 2016 with respect to the unlisted investments amounting to HK$4,000 (2015: HK$4,000) which are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an investment are observable, the investment is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fair value of the derivative financial liabilities at 31 December 2016 included in other payables and accruals amounting to HK$1,851,000 (2015: HK$1,851,000) is determined using a discounted cash flow approach which is not based on observable inputs. The instruments are included in level 3 at 31 December 2016 (2015: Same).

During the year ended 31 December 2016, there were no transfers of financial instruments between levels 1, 2 and 3 (2015: Same).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Impairment of Goodwill

The Group conducts reviews annually whether goodwill has suffered any impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The recoverable amounts of CGUs have been determined based on value-in-use calculations or fair value less costs of disposal. These calculations require the use of judgements and estimates. Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying amount of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations.

Details of the key assumptions selected by management in assessing impairment of goodwill are stated in Note 15.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.2 Impairment of Intangible Assets and Property, Plant and Equipment

Intangible assets and property, plant and equipment are reviewed for impairment whenever events or change in circumstances indicate that the carrying amounts may not be recoverable. The recoverable amounts have been determined based on the higher of value-in-use calculations or fair value less costs to sell calculations.

The calculations require the use of judgements and estimates. Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying amount of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

4.3 Impairment of Trade Receivables

The policy for impairment assessment for trade receivables of the Group is based on the evaluation of collectibility and aging analysis of trade receivables, and judgement of management. A considerable amount of judgement is required in assessing the realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, provision for impairment might be required.

4.4 Fair Value Estimates on Acquisition of Subsidiaries

The initial accounting on the acquisition of subsidiaries involves identifying and determining the fair value of the consideration and the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired entities. Any changes in the assumptions used and estimates made in determining the fair values, and management's ability to measure reliably the contingent liabilities of the acquired entities will impact the carrying amounts of goodwill and the identifiable assets and liabilities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.5 Income Taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations, including the aircraft leasing arrangement between the group companies that are structured on an arm's length basis, for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues, if any, based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, including the tax position of those intra-group transactions, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred income tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Deferred income tax liabilities are recognised in respect of the unremitted earnings of subsidiaries in mainland China generated subsequent to 31 December 2007 and Africa, except to the extent that the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Significant management judgement is required to determine the amount of deferred income tax liabilities to be recognised, which is based upon the estimated timing of dividend distribution.

4.6 Contingent Liabilities

The Group, in the ordinary course of its business, is involved in various claims, suits, investigations and legal proceedings that arise from time to time. Contingent liabilities arising from these legal proceedings have been assessed by management with legal advice.

5 SEGMENT INFORMATION

The chief operating decision maker has been identified as the Board of the Company. Management has determined the operating segments based on the internal reports reviewed by the Board of the Company that are used to assess performance and allocate resources. The Group's operating segments are structured and managed separately according to the services provided by different strategic business units, and the services offered are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

(i) Aviation and Logistics Business ("AL Business") – Provision of aviation and logistics services;

(ii) Financial Market Information Business ("FMI Business") – Provision of online financial market information; and

(iii) Direct Investments – Other direct investments, including interests in associates and available-for-sale financial assets.

Others include corporate income and expenses and others.

The Board of the Company assesses segment performance based on reportable segment results after taking consideration of exceptional items.

5 SEGMENT INFORMATION *(Continued)*

An analysis of the Group's revenue, results and certain assets, liabilities and expenditure information for the year ended 31 December 2016 by operating segments is as follows:

	AL Business HK$'000	FMI Business HK$'000	Direct Investments HK$'000	Others HK$'000	Total HK$'000
Revenue (from external customers)	555,462	21,427	–	–	576,889
Depreciation	30,707	210	–	304	31,221
Amortisation	2,894	–	–	–	2,894
Provision for impairment of goodwill	9,970	–	–	–	9,970
Provision for impairment of property, plant and equipment, net	17,362	–	–	–	17,362
Operating profit/(loss)	(126,960)	(1,387)	10,712	(80,898)	(198,533)
Interest income					13,857
Finance costs					(23,339)
Share of loss of associates					(561)
Loss before income tax					(208,576)
Income tax expenses					(910)
Loss for the year					(209,486)
Total assets	875,051	5,561	13,312	18,543	912,467
Total assets include:					
Interests in associates	–	–	7,185	–	7,185
Total liabilities	483,974	7,890	8,813	12,859	513,536
Capital expenditure	22,093	51	–	29	22,173

5 SEGMENT INFORMATION *(Continued)*

An analysis of the Group's revenue, results and certain assets, liabilities and expenditure information for the year ended 31 December 2015 by operating segments is as follows:

	AL Business HK$'000 (Restated)	FMI Business HK$'000 (Restated)	Direct Investments HK$'000 (Restated)	Others HK$'000 (Restated)	Total HK$'000 (Restated)
Revenue (from external customers)	191,569	23,768	–	–	215,337
Depreciation	25,046	219	–	299	25,564
Amortisation	1,739	–	–	–	1,739
Provision for impairment of goodwill	94,975	–	–	–	94,975
Provision for impairment of property, plant and equipment, net	66,118	–	–	–	66,118
Operating profit/(loss)	(310,948)	(2,950)	279,814	(103,500)	(137,584)
Interest income					21,610
Finance costs					(29,667)
Share of loss of associates					(443)
Loss before income tax					(146,084)
Income tax credit					3,164
Loss for the year					(142,920)
Total assets	1,154,296	8,000	45,348	142,069	1,349,713
Total assets include:					
Interests in associates	–	–	8,462	–	8,462
Total liabilities	654,398	9,079	8,808	34,433	706,718
Capital expenditure	212,445	102	–	1,401	213,948

5 SEGMENT INFORMATION *(Continued)*

The Company is domiciled in Hong Kong. The Group's revenue from external customers by geographical regions is as follows:

	2016 **HK$'000**	2015 HK$'000
Africa	**456,505**	175,656
Europe	**98,958**	11,961
The People's Republic of China ("PRC")		
– mainland China	**–**	3,953
– Hong Kong	**15,225**	17,097
Others	**6,201**	6,670
	576,889	215,337

Revenue derived from external customers with amounts equal to or above 10% of the Group's revenue is as follows:

	Operating segment	**2016** **HK$'000**
Customer A	AL Business	**179,891**

		2015 HK$'000
Customer B	AL Business	35,972
Customer C	AL Business	31,784

5 SEGMENT INFORMATION *(Continued)*

A reconciliation of the total of the reportable segments' assets to the Group's total assets is as follows:

	2016 HK$'000	2015 HK$'000
Total assets for reportable segments	**893,924**	1,207,644
Corporate assets	**18,543**	142,069
Total assets of the Group	**912,467**	1,349,713

The total of non-current assets other than financial instruments and deferred income tax assets by geographical regions is as follows:

	2016 HK$'000	2015 HK$'000
Africa	**312,322**	450,629
Europe	**87,512**	34,942
PRC		
– mainland China	**7,883**	9,817
– Hong Kong	**1,914**	2,308
Others	**350**	45
	409,981	497,741

6 REVENUE

An analysis of revenue is as follows:

	2016 **HK$'000**	2015 HK$'000
Revenue from provision of aviation and logistics services	**555,462**	191,569
Revenue from provision of online financial market information	**21,427**	23,768
	576,889	215,337

7 EMPLOYEE BENEFIT EXPENSES

An analysis of employee benefit expenses, including directors' emoluments, is as follows:

	2016 **HK$'000**	2015 HK$'000
Salaries and bonuses	**120,524**	88,568
Share-based compensation	**21,477**	19,668
Pension costs – defined contribution plans	**3,782**	1,405
Termination benefits	**1,807**	922
Unutilised annual leave	**1,297**	292
Other benefits	**17,242**	5,908
	166,129	116,763

7 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(a) Directors' Emoluments

Details of directors' emoluments are as follows:

Name of director	Fees HK$'000	Salaries HK$'000	Bonuses HK$'000	Termination benefits HK$'000	Contributions to pension schemes HK$'000	Share-based compensation HK$'000	Other benefits HK$'000 Note (i)	Total HK$'000
Year ended 31 December 2016								
Mr Erik D. Prince	**–**	**85**	**–**	**–**	**–**	**6,781**	**1,087**	**7,953**
Mr Ko Chun Shun, Johnson ("Mr Ko")	**120**	**–**	**–**	**–**	**–**	**–**	**–**	**120**
Mr Luo Ning	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dr Hua Dongyi (Note (ii))	**–**	**1,511**	**–**	**–**	**–**	**2,573**	**–**	**4,084**
Mr Gregg H. Smith (Note (iii))	**–**	**1,387**	**1,732**	**963**	**77**	**7,226**	**176**	**11,561**
Mr Hu Qinggang	**–**	**1,598**	**133**	**–**	**55**	**402**	**111**	**2,299**
Mr Yap Fat Suan, Henry	**543**	**–**	**–**	**–**	**–**	**–**	**–**	**543**
Professor Lee Hau Leung	**543**	**–**	**–**	**–**	**–**	**–**	**–**	**543**
Mr William J. Fallon (Note (iv))	**181**	**–**	**–**	**–**	**–**	**–**	**–**	**181**
Dr Harold O. Demuren	**543**	**–**	**–**	**–**	**–**	**–**	**–**	**543**
Total	**1,930**	**4,581**	**1,865**	**963**	**132**	**16,982**	**1,374**	**27,827**
Year ended 31 December 2015								
Mr Erik D. Prince	–	82	–	–	–	16,726	1,085	17,893
Mr Ko Chun Shun, Johnson	120	–	–	–	–	–	–	120
Mr Luo Ning	–	–	–	–	–	–	–	–
Mr Gregg H. Smith	–	3,678	2,197	–	113	–	432	6,420
Mr Hu Qinggang	–	1,551	194	–	55	–	114	1,914
Mr Yap Fat Suan, Henry	543	–	1,358	–	–	166	–	2,067
Professor Lee Hau Leung	543	–	1,358	–	–	166	–	2,067
Mr William J. Fallon	543	–	1,358	–	–	166	–	2,067
Dr Harold O. Demuren	543	–	1,358	–	–	166	–	2,067
Total	2,292	5,311	7,823	–	168	17,390	1,631	34,615

Notes:

(i) Other benefits include medical insurance, travel insurance and other statutory welfare contributions.

(ii) Dr Hua Dongyi was appointed as an executive director and the Acting Chief Executive Officer of the Company with effect from 26 July 2016. On 22 March 2017, he has officially become the Chief Executive Officer of the Company.

(iii) Mr Gregg H. Smith resigned as an executive director and the Chief Executive Officer of the Company with effect from 1 May 2016.

(iv) Mr William J. Fallon resigned as an independent non-executive director of the Company with effect from 30 April 2016.

7 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Directors' Retirement Benefits

No retirement benefits were paid to or receivable by any director during the year ended 31 December 2016 in respect of services as a director of the Company and its subsidiary undertakings or in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertakings (2015: Nil).

(c) Directors' Termination Benefits

During the year ended 31 December 2016, a termination payment of HK$963,000 was made by the Group to Mr Gregg H. Smith in relation to his resignation as an executive director and the Chief Executive Officer of the Company with effect from 1 May 2016 (2015: Nil).

Save as disclosed above, there were no other payments made to or receivable by any director during the year ended 31 December 2016 in respect of the loss of office as a director, whether of the Company or its subsidiary undertakings, or the loss of other office in connection with the management of the affairs of the Company or its subsidiary undertakings.

(d) Consideration Provided to Third Parties for Making Available Directors' Services

No consideration was provided to or receivable by third parties for making available directors' services during the year ended 31 December 2016 (2015: Nil).

(e) Information about Loans, Quasi-Loans and Other Dealings Entered Into by the Company or Its Subsidiary Undertakings, Where Applicable, in Favour of Directors

There were no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected parties during the year ended 31 December 2016 (2015: Nil).

(f) Directors' Material Interests in Transactions, Arrangements or Contracts

There were no significant transactions, arrangements and contracts in relation to the Group's business to which the Company or its subsidiaries 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 year or at any time during the year ended 31 December 2016 (2015: Nil).

7 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(g) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2015: two) directors, whose emoluments are reflected in Note 7(a). The emoluments payable to the remaining two (2015: three) individual during the year are as follows:

	2016 **HK$'000**	2015 HK$'000
Basic salaries, other allowances and benefits in kind	**7,292**	8,036
Bonuses	**1,548**	5,349
Share-based compensation	**2,008**	1,943
Contributions to pension schemes	**137**	198
	10,985	15,526

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	**2016**	2015
HK$3,000,001 – HK$3,500,000	**–**	1
HK$4,500,001 – HK$5,000,000	**1**	–
HK$5,500,001 – HK$6,000,000	**–**	1
HK$6,000,001 – HK$6,500,000	**1**	1

8 FINANCE COSTS

	2016 **HK$'000**	2015 HK$'000
Interests on:		
Bank loans	**11,410**	13,412
Finance leases	**7,806**	5,153
Other loan	**2**	–
Financing arrangement fees	**4,111**	2,508
Net exchange losses on borrowings	**10**	8,594
	23,339	29,667

9 INCOME TAX CREDIT/(EXPENSES)

	2016 **HK$'000**	2015 HK$'000
Current income tax		
– Outside Hong Kong		
– Provision for the year	**(15,251)**	(933)
– Adjustment in respect of prior years	**(401)**	213
	(15,652)	(720)
Deferred income tax		
– Hong Kong	**17**	–
– Outside Hong Kong	**14,725**	3,884
	(910)	3,164

Taxation on profits has been calculated on the estimated assessable profits for the year at the applicable rates of taxation prevailing in the countries/places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The reconciliation between the income tax credit/(expenses) on the Group's loss before income tax and the theoretical amount of income tax credit/(expenses) that would arise using the domestic tax rate applicable to each of the group companies for the year is as follows:

	2016 **HK$'000**	2015 HK$'000
Loss before income tax	**(208,576)**	(146,084)
Tax calculated at the rates applicable in the countries concerned	**5,137**	(31,439)
Tax effects of:		
– Income not subject to tax	**2,349**	54,166
– Expenses not deductible for tax purposes	**(17,944)**	(14,067)
– Utilisation of previously unrecognised tax losses	**351**	70
– Reversal of previously recognised timing differences	**(1,281)**	–
– Tax losses not recognised	**(3,546)**	(7,310)
– Withholding tax, net	**14,425**	1,531
– Adjustment in respect of prior years	**(401)**	213
Income tax credit/(expenses)	**(910)**	3,164

10 LOSS FOR THE YEAR

The Group's loss for the year is arrived at after charging/(crediting):

	2016 HK$'000	2015 HK$'000
Cost of direct materials and job expenses (Note (i))	**130,697**	113,216
Depreciation (Note 14)	**31,221**	25,564
Amortisation of intangibles (Note 15)	**2,850**	1,694
Amortisation of prepaid operating lease rentals (Note 20)	**44**	45
Engine overhaul cost (Note 19)	**11,570**	7,796
Operating lease rentals on land and buildings	**17,779**	14,809
Operating lease rentals on equipment	**–**	4,336
Operating lease rentals on motor vehicle	**235**	102
Operating lease rentals on aircraft	**–**	24,733
Other operating expenses including, inter alia:		
Professional and consultancy fee	**31,321**	14,986
Travelling expenses	**14,507**	23,688
Auditor's remuneration		
– Audit services	**2,685**	1,875
– Non-audit services	**1,114**	204
Net exchange losses/(gains)	**(3,558)**	12,281
Gain on disposal of subsidiaries, net of tax (Note 35)	**(265)**	–
Acquisition-related costs	**4,779**	8,318
Net loss/(gain) on disposal of property, plant and equipment	**3,631**	(775)
Provision for impairment of trade receivables (Note 23)	**638**	63
Provision for impairment of prepayments, deposits and other receivables (Note 24)	**215**	3
Provision for inventories (Note 22)	**1,597**	12
Provision for impairment of interest in an associate (Note 17)	**–**	56

Note:

(i) The cost of direct materials and job expenses includes, inter alia, parts for aircraft maintenance services, fuel cost, take-off, landing and depot charges, crew cost, toll cost and custom clearing cost.

11 LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the Group's loss attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue during the year less the weighted average number of ordinary shares held for share award scheme during the year.

The calculation of the diluted loss per share for the year is based on the Group's loss attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue during the year less the weighted average number of ordinary shares held for share award scheme during the year assuming the conversion of the exchangeable preference shares and the exercise of the outstanding share options, the dilutive potential ordinary shares of the Company. A calculation is made to determine the number of ordinary shares that could have been acquired at fair value (determined as the average market share price of the Company's ordinary shares over the year) based on the monetary values of the exchange price of the exchangeable preference shares and the subscription rights attached to the outstanding share options.

The basic and diluted loss per share for the year ended 31 December 2016 were the same because the effect of the assumed conversion of all dilutive potential ordinary shares outstanding during the year was anti-dilutive.

The weighted average number of ordinary shares in issue during the year less the weighted average number of ordinary shares held for share award scheme during the year for the calculation of the basic and diluted loss per share is set out as follows:

	2016	2015
Weighted average number of ordinary shares in issue	**1,233,125,352**	1,229,503,003
Less: Weighted average number of ordinary shares held for share award scheme	**(3,535,531)**	–
	1,229,589,821	1,229,503,003

	HK$'000	HK$'000
Group's loss attributable to the equity holders of the Company	**(209,816)**	(142,920)

12 DIVIDENDS

The Board of the Company does not recommend the payment of any dividend for the year ended 31 December 2016 (2015: Nil).

13 BUSINESS COMBINATION

Acquisition of Maleth Aero Limited ("Maleth")

On 3 February 2016, Frontier Services Limited ("FSL"), a wholly-owned subsidiary of the Company, entered into a conditional investment agreement for the acquisition of 51% equity interest in Maleth, a company through its subsidiary, Maleth Aero AOC Limited, principally engaged in the provision of aircraft management services, for a consideration of approximately EUR1,002,000 (equivalent to approximately HK$8,963,000). On the same date, FSL also entered into a symmetrical put and call option agreement, pursuant to which FSL has the right to purchase and the seller has the right to sell the remaining 49% equity interest in Maleth at an option price equal to the higher of EUR1,000,000 (equivalent to approximately HK$8,190,000) and 4.5 multiplied by the average consolidated earnings before interest, tax, depreciation and amortisation of Maleth for the prior two financial years preceding the exercise of the put option or the call option, which is capped at EUR10,000,000 (equivalent to approximately HK$81,895,000). The acquisition of 51% equity interest in Maleth was completed on 6 July 2016. The acquisition immediately enabled the Group to strengthen the Group's presence in the Mediterranean region, further connecting the Group's logistics operations in Africa to Europe, the Middle East and the One Belt One Road region of central Asia.

13 BUSINESS COMBINATION *(Continued)*

Acquisition of Maleth Aero Limited ("Maleth") *(Continued)*

The following table summarised the consideration paid for the issued share capital, the acquisition-related costs, the analysis of the net cash inflow from the acquisition, and the amounts of the assets acquired and liabilities assumed recognised at the date of acquisition.

	2016 HK$'000
Purchase consideration	
Cash paid	8,963
Acquisition-related costs, included in other operating expenses	
Legal and professional fees and other expenses	4,497
Outflow of cash to acquire business, net of cash acquired	
Cash consideration	(8,963)
Cash and cash equivalents in subsidiaries acquired	17,300
Net cash inflow from acquisition	8,337
Property, plant and equipment	1,416
Deferred income tax assets	2,513
Intangibles	5,938
Receivables (a)	40,605
Cash and cash equivalents	17,300
Payables	(51,158)
Borrowings	(715)
Deferred income tax liabilities	(2,078)
Total identifiable net assets	13,821
Non-controlling interests	(6,960)
	6,861
Goodwill on acquisition (b)	2,102
	8,963

13 BUSINESS COMBINATION *(Continued)*

Acquisition of Maleth Aero Limited ("Maleth") *(Continued)*

(a) Acquired receivables

The fair value and the gross contractual amounts of receivables are approximately HK$40,605,000 which include trade receivables with a fair value of approximately HK$21,151,000. The fair values of trade and other receivables approximate their carrying amounts. There is no contractual cash flow from the acquired receivables that are expected to be uncollected.

(b) Goodwill on acquisition

The Group recognised goodwill of approximately HK$2,102,000 in the consolidated statement of financial position, which was primarily attributable to the consideration that was mutually agreed between the parties, with reference to the carrying amount of the identifiable net assets of approximately HK$13,821,000 as at the date of acquisition.

Goodwill is primarily attributable to the anticipated profitability and net cash inflows of the acquired business.

(c) Revenue and profit contribution

The acquired business contributed a revenue of approximately HK$54,658,000 and a net profit after tax of approximately HK$369,000 to the Group for the period from 6 July 2016 (date of acquisition) to 31 December 2016. Had the acquisition occurred on 1 January 2016, the acquired business would have contributed a revenue of approximately HK$132,466,000 and a net loss after tax of approximately HK$1,445,000 to the Group for the year ended 31 December 2016.

(d) Symmetrical put and call option

The symmetrical put and call option was recognised as a financial liability at its present value of HK$6,963,000 as at 31 December 2016.

14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements and hangars HK$'000	Aircraft and aviation equipment HK$'000 Note (i)	Plant, machinery and tooling HK$'000	Trucks, trailers and containers HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Total HK$'000
At 1 January 2015								
Cost	9,448	332,713	2,002	–	5,291	7,062	1,850	358,366
Accumulated depreciation and impairment	(3,114)	(5,985)	(469)	–	(1,704)	(3,614)	(602)	(15,488)
Net carrying amount	6,334	326,728	1,533	–	3,587	3,448	1,248	342,878
Year ended 31 December 2015								
Opening net carrying amount	6,334	326,728	1,533	–	3,587	3,448	1,248	342,878
Additions	947	157,098	2,409	–	727	1,293	947	163,421
Transfer from non-current prepayments (Note 19)	–	9,336	–	–	–	–	–	9,336
Acquisition of subsidiaries	–	–	6,457	21,899	291	431	546	29,624
Disposals (Note 35)	(266)	(16,699)	(360)	–	(206)	(100)	(153)	(17,784)
Impairment (Note (ii))	–	(66,118)	–	–	–	–	–	(66,118)
Depreciation (Note 10)	(678)	(19,248)	(1,888)	(708)	(1,379)	(1,147)	(516)	(25,564)
Transfer to assets held for sale (Note (iv))	–	(6,317)	–	–	–	–	–	(6,317)
Other transfer	–	13	(165)	–	–	102	50	–
Exchange differences	(667)	(10,942)	(479)	(1,051)	(174)	(315)	(146)	(13,774)
Closing net carrying amount	5,670	373,851	7,507	20,140	2,846	3,712	1,976	415,702
At 31 December 2015								
Cost	9,169	454,852	9,563	20,848	5,503	8,042	2,741	510,718
Accumulated depreciation and impairment	(3,499)	(81,001)	(2,056)	(708)	(2,657)	(4,330)	(765)	(95,016)
Net carrying amount	5,670	373,851	7,507	20,140	2,846	3,712	1,976	415,702
Year ended 31 December 2016								
Opening net carrying amount	**5,670**	**373,851**	**7,507**	**20,140**	**2,846**	**3,712**	**1,976**	**415,702**
Additions	**469**	**2,066**	**1,197**	**–**	**307**	**499**	**324**	**4,862**
Acquisition of subsidiaries (Note 13)	**–**	**–**	**1,074**	**–**	**161**	**154**	**27**	**1,416**
Disposals (Note 35)	**(2,392)**	**(11,095)**	**(72)**	**(750)**	**(133)**	**(462)**	**(490)**	**(15,394)**
Impairment (Note (iii))	**–**	**(13,570)**	**–**	**(3,792)**	**–**	**–**	**–**	**(17,362)**
Depreciation (Note 10)	**(766)**	**(21,723)**	**(2,927)**	**(3,363)**	**(1,126)**	**(922)**	**(394)**	**(31,221)**
Transfer to assets held for sale (Note (v))	**–**	**(23,499)**	**–**	**–**	**–**	**–**	**–**	**(23,499)**
Other transfer	**–**	**(13)**	**–**	**–**	**–**	**(345)**	**358**	**–**
Exchange differences	**20**	**774**	**716**	**1,610**	**(17)**	**52**	**69**	**3,224**
Closing net carrying amount	**3,001**	**306,791**	**7,495**	**13,845**	**2,038**	**2,688**	**1,870**	**337,728**
At 31 December 2016								
Cost	**6,883**	**383,339**	**12,412**	**21,606**	**5,748**	**7,645**	**3,092**	**440,725**
Accumulated depreciation and impairment	**(3,882)**	**(76,548)**	**(4,917)**	**(7,761)**	**(3,710)**	**(4,957)**	**(1,222)**	**(102,997)**
Net carrying amount	**3,001**	**306,791**	**7,495**	**13,845**	**2,038**	**2,688**	**1,870**	**337,728**

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Notes:

(i) The Group leases various aircraft under non-cancellable finance lease arrangements. The lease terms are between 5 and 10 years and the ownership of the aircraft lies within the Group. The net carrying amount of the aircraft under finance leases at 31 December 2016 is as follows:

	Aircraft	
	2016	2015
	HK$'000	HK$'000
Cost – capitalised finance leases	**145,383**	144,774
Accumulated depreciation and impairment	**(21,372)**	(8,630)
Net carrying amount	**124,011**	136,144

(ii) The provision for impairment of property, plant and equipment of HK$66,118,000 for the year ended 31 December 2015 represents:

(a) a full provision of HK$62,940,000 taken against two highly modified survey aircraft due to no alternative use for the aircraft, and unsuccessful disposal efforts and a general lack of marketability of the assets due to their level of customisation; and

(b) a provision of HK$3,178,000 charged to the carrying amounts of two small turboprop aircraft held for sale to reflect more accurately their resale value.

(iii) The provision for impairment of property, plant and equipment, net of HK$17,362,000 for the year ended 31 December 2016 represents:

(a) a reversal of provision of HK$10,844,000 taken against two highly modified survey aircraft due to subsequent disposals during the year ended 31 December 2016;

(b) a provision of HK$24,414,000 charged to the carrying amounts of six aircraft to reflect their market values; and

(c) a provision of HK$3,792,000 charged to the carrying amounts of certain trucks and trailers to reflect their market values.

(iv) On 30 November 2015, the Group entered into a purchase and sale agreement for the disposal of two small turboprop aircraft for a consideration of US$815,000 (equivalent to approximately HK$6,317,000), which was not yet completed as at 31 December 2015. Accordingly, the aircraft with net carrying amount of HK$6,317,000 (after a provision of impairment of HK$3,178,000) were transferred to assets held for sale under current assets. One of the aircraft with a carrying amount of HK$925,000 was not yet sold as at 31 December 2016.

(v) During the year ended 31 December 2016, the Group intended to dispose one idle helicopter in Kenya with net carrying amount of HK$23,499,000. This helicopter was transferred to assets held for sale under current assets.

15 GOODWILL AND OTHER INTANGIBLES

	2016			2015		
	Goodwill HK$'000 Note (i)	**Other intangibles HK$'000** Note (ii)	**Total HK$'000**	Goodwill HK$'000 Note (i)	Other intangibles HK$'000 Note (ii)	Total HK$'000
At 1 January						
Cost	**104,926**	**32,537**	**137,463**	101,704	24,240	125,944
Accumulated amortisation and impairment	**(94,975)**	**(2,400)**	**(97,375)**	–	(707)	(707)
Net carrying amount	**9,951**	**30,137**	**40,088**	101,704	23,533	125,237
Year ended 31 December						
Opening net carrying amount	**9,951**	**30,137**	**40,088**	101,704	23,533	125,237
Additions	**–**	**–**	**–**	–	1,350	1,350
Acquisition of subsidiaries (Note 13)	**2,102**	**5,938**	**8,040**	3,221	6,950	10,171
Amortisation (Note 10)	**–**	**(2,850)**	**(2,850)**	–	(1,694)	(1,694)
Impairment (Note (i))	**(9,970)**	**–**	**(9,970)**	(94,975)	–	(94,975)
Exchange differences	**19**	**–**	**19**	1	(2)	(1)
Closing net carrying amount	**2,102**	**33,225**	**35,327**	9,951	30,137	40,088
At 31 December						
Cost	**107,047**	**38,475**	**145,522**	104,926	32,537	137,463
Accumulated amortisation and impairment	**(104,945)**	**(5,250)**	**(110,195)**	(94,975)	(2,400)	(97,375)
Net carrying amount	**2,102**	**33,225**	**35,327**	9,951	30,137	40,088

15 GOODWILL AND OTHER INTANGIBLES *(Continued)*

Notes:

(i) Goodwill is monitored by management at the CGU level within an operating segment level with reference to the business performance based on geography and type of business. A summary of the allocation of goodwill to the identified CGUs of the Group is as follows:

	2016			2015		
	Cost HK$'000	**Accumulated impairment HK$'000**	**Net carrying amount HK$'000**	Cost HK$'000	Accumulated impairment HK$'000	Net carrying amount HK$'000
FSL	**94,975**	**(94,975)**	**–**	94,975	(94,975)	–
Phoenix Aviation Limited ("PAL")	**6,730**	**(6,730)**	**–**	6,730	–	6,730
Cheetah Logistics SARL ("Cheetah")	**1,772**	**(1,772)**	**–**	1,772	–	1,772
Transit Freight Forwarding Proprietary Limited ("TFF")	**1,468**	**(1,468)**	**–**	1,449	–	1,449
Maleth	**2,102**	**–**	**2,102**	–	–	–
	107,047	**(104,945)**	**2,102**	104,926	(94,975)	9,951

The provision for impairment of goodwill of HK$9,970,000 for the year ended 31 December 2016 represented the impairment of goodwill arising from the acquisitions of PAL, Cheetah and TFF in 2014 and 2015. The decision to take a full impairment charge against the goodwill was following a careful internal operation review in the context of the respective CGUs' historical performance and market expectation by the management. In recognition of this, the goodwill was fully impaired and absorbed into the Group's reported consolidated financial statements for the year ended 31 December 2016.

The provision for impairment of goodwill of HK$94,975,000 for the year ended 31 December 2015 represents the impairment of the goodwill arising from the acquisition of FSL in December 2013. The decision to take a full impairment charge against the goodwill was following a careful internal strategic review undertaken in the context of the substantial negative effect of the large-scale aviation and logistics program for the natural resources sector on the Group's 2015 performance. The carrying amount of the goodwill was based on a pipeline of similar large-scale aviation and logistics programs generally focused on the natural resources sector. With a sustained depression in commodity prices and unsuccessful business development efforts, the Group opted to de-emphasise its large-project efforts, in favour of investment in other market sectors such as consumer products. In recognition of this, the goodwill was fully impaired and absorbed into the Group's reported consolidated financial statements for the year ended 31 December 2015.

15 GOODWILL AND OTHER INTANGIBLES *(Continued)*

Notes: *(Continued)*

(i) *(Continued)*

The recoverable amount is determined based on value-in-use calculation. This calculation is made with the use of discounted cash flow model, based on financial budget approved by management covering a 5-year period. Cash flow beyond the 5-year period is extrapolated using the key assumptions stated below:

	2016			2015		
	Annual growth rate	**Terminal growth rate**	**Discount rate**	Annual growth rate	Terminal growth rate	Discount rate
FSL	**N/A**	**N/A**	**N/A**	5%	3%	18%
PAL	**1%-3%**	**3%**	**17%**	5%	3%	17%
Cheetah	**3%**	**3%**	**23%**	7%	3%	23%
TFF	**4%-6%**	**4%**	**16.5%**	1.5%-5.5%	3%	16.5%

Other key assumptions included estimated gross margin, applicable corporate income tax rate and capital expenditure for repairs and maintenance. Management determines estimated gross margin based on past performance and its expectation of market development.

For Maleth, there was no impairment loss for goodwill recognised during the year ended 31 December 2016. If the estimated growth rate beyond the 5-year period used in the value-in-use calculation for Maleth had been 10% lower than management's estimation at 31 December 2016, the Group would have recognised an impairment of goodwill of HK$238,000.

(ii) Other intangibles represent operating certificates, trademark, customer base and non-compete agreements derived from the acquisition of various subsidiaries.

16 SUBSIDIARIES

The table below lists out the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name	Place of incorporation or registration/ operation	Nominal value of issued ordinary shares/preference shares/paid-up capital	Percentage of attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
FSL	Bermuda	US$1,000 common	100%	–	Investment holding and provision of aviation and logistics services
FSG Aviation Limited	Bermuda	US$1 common	100%	–	Aircraft holding and provision of aviation and logistics services
PAL	Kenya	KES550,488,000 ordinary	–	100%	Provision of aviation and logistics services
Frontier Logistics Consultancy DMCC	United Arab Emirates	Emirati Dirham 50,000 ordinary	100%	–	Provision of aviation and logistics services
Frontier Services Group East Africa Limited	Kenya	KES3,311,700 ordinary	–	100%	Provision of administrative and management services
Cheetah	Democratic Republic of the Congo	US$100,000 ordinary	–	100%	Provision of transport logistics services
TFF	South Africa	ZAR100 ordinary	–	100%	Provision of freight forwarding services
Transit Freight Co-ordinators Limited	Zambia	Zambian Kwacha ("ZMW") 10,000 ordinary	–	50%	Provision of freight forwarding services
Maleth	Malta	EUR1,030,613 ordinary	–	51%	Investment holding
Maleth Aero AOC Limited	Malta	EUR545,200 ordinary	–	47%	Provision of aircraft management services

16 SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operation	Nominal value of issued ordinary shares/preference shares/paid-up capital	Percentage of attributable equity interest held by the Company Directly	Percentage of attributable equity interest held by the Company Indirectly	Principal activities
Frontier Pan-Africa Investment Consulting (Beijing) Company Limited#	mainland China*	RMB100,000,000 paid-up capital	–	100%	Investment holding and provision of aviation and logistics related consultancy services
DVN (Group) Limited	British Virgin Islands	US$10 ordinary and US$15,000,000 preference	100%	–	Investment holding and management
Data Source Technology Limited	Hong Kong	HK$5,000,000 ordinary	–	100%	Provision of administrative and management services
Dynamic Network Limited	British Virgin Islands	US$1 ordinary	100%	–	Investment holding and management
Telequote Data International Limited	Hong Kong	HK$10,000 ordinary	–	100%	Provision of online financial market information

* Registered as wholly foreign owned enterprise with limited liability under the PRC law

For identification purposes only

17 INTERESTS IN ASSOCIATES

	2016 HK$'000	2015 HK$'000
At 1 January	**8,462**	9,664
Share of loss of associates	**(561)**	(443)
Impairment (Note 10)	**–**	(56)
Exchange differences	**(716)**	(703)
At 31 December	**7,185**	8,462

Details of the associates as at 31 December 2016 are as follows:

Name	Place of incorporation or registration/operation	Interest held	Principal activities
Shanghai Boyojoy Network Technology Company Limited# ("Boyojoy")	mainland China	45%	Development and provision of online game
Chinese Online Corporation Limited ("COL")	Hong Kong	20%	Inactive
Ninhao Chinese Corporation Limited#	mainland China*	20%	Inactive
Huacheng Interactive (Beijing) Media Company Limited#	mainland China	10%^	Distribution of films and TV programmes
Beijing Ehero Technology Company Limited# (formerly known as Dongfang Huanlu Technology Company Limited)	mainland China	5.1%^	Development, operation and provision of related services of interactive TV media systems

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\# For identification purposes only

^ Although the Group holds less than 20% of voting power of the investees, the Group demonstrates significant influences on the investees through the board's representation in participating in financial and operating policy decisions.

To determine the recoverable amount of Boyojoy, the Group adopted the market-based approach under which several companies with similar business natures and operations as Boyojoy in the online game industry have been considered as comparable companies. Management considers the Enterprise Value-to-Sales Ratio ("EV/Sales Ratio") to be the most appropriate comparable used in the assessment.

17 INTERESTS IN ASSOCIATES *(Continued)*

Compared to similar interest in public companies, ownership interest is not readily marketable for closely held companies. Therefore, the value of a share of stock in a privately held company is usually less than an otherwise comparable share in a publicly held company. Hence, a 20% marketability discount has been considered in arriving at the value of the Group's interest in Boyojoy.

In April 2011, the Group entered into an investment agreement with Boyojoy, pursuant to which the Group is entitled to acquire an ultimate shareholding of 35% by four stages based on the performance criteria by Boyojoy as defined in the investment agreement. Upon the achievement of the performance criteria by Boyojoy in the first three stages, the Group's shareholding in Boyojoy was increased to 45% in August 2013. Pursuant to the investment agreement, upon the achievement of performance criteria of the fourth stage by Boyojoy, the Group has to dispose of 10% of its investment in Boyojoy without consideration, a derivative financial liability was recognised with respect to the arrangement (Note 27). At 31 December 2016, the performance criteria of the fourth stage still has not yet been achieved.

There were no contingent liabilities relating to the Group's interests in associates at 31 December 2016 (2015: Nil).

Summarised financial information of all associates, which are not individually material to the Group, is set out below:

	2016 **HK$'000**	2015 HK$'000
Loss after income tax	**(3,613)**	(4,233)
Group's share of loss for the year	**(561)**	(443)
Group's share of other comprehensive loss	**(716)**	(703)
Group's share of total comprehensive loss	**(1,277)**	(1,146)

18 DEFERRED TAXATION

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 the same tax authority. The deferred income tax assets and liabilities after offsetting are as follows:

	2016 HK$'000	2015 HK$'000
Deferred income tax assets	**5,345**	4,031
Deferred income tax liabilities	**(60,455)**	(75,737)
	(55,110)	(71,706)

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets

	Tax losses		Non-current prepayments		Unrealised exchange differences		Total	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
At 1 January	**4,443**	–	**1,234**	1,395	**1,593**	644	**7,270**	2,039
Acquisition of subsidiaries	**2,454**	–	**–**	–	**–**	–	**2,454**	–
Credited/(charged) to consolidated income statement	**1,394**	4,596	**(1,148)**	–	**(1,558)**	1,063	**(1,312)**	5,659
Exchange differences	**60**	(153)	**17**	(161)	**14**	(114)	**91**	(428)
At 31 December	**8,351**	4,443	**103**	1,234	**49**	1,593	**8,503**	7,270

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. At 31 December 2016, the Group did not recognise deferred income tax assets of HK$25,207,000 (2015: HK$22,164,000) in respect of unrecognised tax losses of HK$112,470,000 (2015: HK$102,418,000) that can be carried forward to offset against future taxable income. The unrecognised tax losses include an amount of approximately HK$49,297,000 (2015: HK$42,418,000) arising in mainland China, Kenya and Zambia which is due to expire within one to five years for offsetting against future taxable profits of the companies in which the losses arise.

18 DEFERRED TAXATION *(Continued)*

Deferred income tax liabilities

	Accelerated tax depreciation		Withholding tax on unremitted profits		Non-current prepayments		Other intangibles		Deferred income		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**23,834**	30,240	**20,037**	23,114	**–**	–	**8,497**	7,065	**26,608**	20,690	**78,976**	81,109
Acquisition of subsidiaries	**(59)**	–	**–**	–	**–**	–	**2,078**	1,946	**–**	–	**2,019**	1,946
Charged/(credited) to consolidated income statement	**(1,252)**	(3,330)	**(14,608)**	(1,798)	**1,925**	–	**(855)**	(513)	**(1,264)**	7,416	**(16,054)**	1,775
Exchange differences	**(1)**	(3,076)	**329**	(1,279)	**(21)**	–	**–**	(1)	**(1,635)**	(1,498)	**(1,328)**	(5,854)
At 31 December	**22,522**	23,834	**5,758**	20,037	**1,904**	–	**9,720**	8,497	**23,709**	26,608	**63,613**	78,976

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in mainland China. The requirement is effective from 1 January 2008 and applied to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding tax on dividends distributed by those subsidiaries established in mainland China in respect of earnings generated from 1 January 2008. For the year ended 31 December 2016, a reversal of HK$15,521,000 for deferred withholding tax (2015: Nil) in respect of the unremitted profits amounting to HK$155,213,000 of a disposed subsidiary in mainland China. A provision of HK$913,000 for deferred withholding tax (2015: reversal of HK$1,798,000 in respect of the net results made by the subsidiaries established in mainland China) was made in respect of the profit made by a subsidiary established in mainland China during the year ended 31 December 2016.

Pursuant to the Kenyan Income Tax Act, a 10% withholding tax is levied on dividends declared to non-residents from the enterprises established in Kenya. A lower withholding tax rate may be applied if there is a tax treaty between Kenya and the jurisdiction of the non-residents. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding tax on dividends distributed by those subsidiaries established in Kenya. For the years ended 31 December 2016 and 2015, no provision for deferred withholding tax was made in respect of the potential distribution to be made by a subsidiary established in Kenya.

At 31 December 2016, the Group has recognised deferred income tax liabilities in respect of temporary differences relating to the withholding tax of HK$5,758,000 (2015: HK$20,037,000) on the unremitted profits of subsidiaries in mainland China amounting to HK$57,578,000 (2015: HK$200,373,000) as the Company may intend to have dividends declared by the subsidiaries in mainland China in the foreseeable future.

18 DEFERRED TAXATION *(Continued)*

Deferred income tax liabilities *(Continued)*

At 31 December 2016, the Group did not recognise deferred income tax liabilities in respect of temporary differences relating to the withholding tax of HK$11,411,000 (2015: HK$12,822,000) on the unremitted profits of subsidiaries in Africa and mainland China amounting to HK$114,109,000 (2015: HK$128,216,000), that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

At 31 December 2016, the recognised deferred income tax liabilities to be recovered within twelve months from the financial position date amounted to HK$4,669,000 (2015: HK$1,775,000).

19 NON-CURRENT PREPAYMENTS

	2016				2015			
	Engine overhaul HK$'000	**Aircraft and aviation equipment HK$'000**	**Other deposits HK$'000**	**Total HK$'000**	Engine overhaul HK$'000	Aircraft and aviation equipment HK$'000	Other deposits HK$'000	Total HK$'000
At 1 January	**30,144**	**–**	**1,907**	**32,051**	34,090	9,336	–	43,426
Additions	**7,855**	**–**	**–**	**7,855**	7,475	–	1,907	9,382
Charged to consolidated income statement as engine overhaul cost (Note 10)	**(11,570)**	**–**	**–**	**(11,570)**	(7,796)	–	–	(7,796)
Transfer to property, plant and equipment (Note 14)	**–**	**–**	**–**	**–**	–	(9,336)	–	(9,336)
Exchange differences	**11**	**–**	**1**	**12**	(3,625)	–	–	(3,625)
At 31 December	**26,440**	**–**	**1,908**	**28,348**	30,144	–	1,907	32,051

The non-current prepayments for engine overhaul represent the engine overhaul cost prepaid to aircraft manufacturers but the engines are not yet overhauled and are not expected to be utilised within twelve months from the financial position date.

The non-current prepayments for aircraft and aviation equipment represent the progress payments made for the purchase of certain aircraft and aviation equipment.

20 PREPAID OPERATING LEASE RENTALS

	2016 HK$'000	2015 HK$'000
At 1 January		
Cost	**1,503**	1,693
Accumulated amortisation	**(65)**	(20)
Net carrying amount	**1,438**	1,673
Year ended 31 December		
Opening net carrying amount	**1,438**	1,673
Amortisation (Note 10)	**(44)**	(45)
Exchange differences	**(1)**	(190)
Closing net carrying amount	**1,393**	1,438
At 31 December		
Cost	**1,502**	1,503
Accumulated amortisation	**(109)**	(65)
Net carrying amount	**1,393**	1,438

The prepaid operating lease rentals represent the premium paid by PAL for the land leased from the Kenya Airports Authority for the terms of 45 years from 1 June 2004.

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016				2015			
	Hong Kong listed equity investment HK$'000 Note (i)	Overseas listed security investment HK$'000 Note (ii)	Overseas unlisted security investments HK$'000 Note (iii)	Total HK$'000	Hong Kong listed equity investment HK$'000 Note (i)	Overseas listed security investment HK$'000 Note (ii)	Overseas unlisted security investments HK$'000 Note (iii)	Total HK$'000
At 1 January	**31,000**	**86**	**4**	**31,090**	70,153	106	5	70,264
Change in value (Note 33)	**(11,815)**	**–**	**–**	**(11,815)**	279,433	–	–	279,433
Redemptions	**–**	**(29)**	**–**	**(29)**	–	(10)	–	(10)
Disposals	**(17,904)**	**–**	**–**	**(17,904)**	(318,586)	–	–	(318,586)
Exchange differences	**–**	**–**	**–**	**–**	–	(10)	(1)	(11)
At 31 December	**1,281**	**57**	**4**	**1,342**	31,000	86	4	31,090
Less: current portion	**(1,281)**	**–**	**–**	**(1,281)**	(31,000)	–	–	(31,000)
Non-current portion	**–**	**57**	**4**	**61**	–	86	4	90

Notes:

(i) During the year ended 31 December 2016, the Company disposed of 2,914,000 shares (2015: 14,661,178 shares) of Yunfeng Financial Group Limited (formerly known as REORIENT GROUP LIMITED) ("YFGL") in the market for an aggregate consideration of approximately HK$17,904,000 (2015: HK$318,586,000) and a gain on disposal of available-for-sale financial assets of approximately HK$10,712,000 (2015: HK$279,870,000) was recorded. At 31 December 2016, the fair value of the listed equity investment of approximately HK$1,281,000 (2015: HK$31,000,000) was based on quoted market price of the YFGL's shares.

(ii) It represents listed corporate bond.

(iii) It represents unlisted equity securities.

22 INVENTORIES

	2016 HK$'000	2015 HK$'000
Aircraft spare parts and consumables	**5,772**	9,366
Packaging materials	**411**	218
Fuel	**–**	60
	6,183	9,644

During the year ended 31 December 2016, a provision for inventories amounting to HK$1,597,000 (2015: HK$12,000) on obsolete aircraft spare parts and consumables was recognised in other operating expenses in the consolidated income statement.

23 TRADE RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	**88,181**	58,439
Less: Provision for impairment	**(701)**	(63)
	87,480	58,376

The fair value of trade receivables approximates its carrying amount.

Credit terms of one month from invoice date are generally granted to major customers. The Group seeks to maintain strict control over its outstanding receivables. The Group performs ongoing credit evaluation of its customers and makes frequent contact with its customers, if necessary.

23 TRADE RECEIVABLES *(Continued)*

An aging analysis, based on the invoice date, of the trade receivables as at the financial position date is as follows:

	2016	2015
	HK$'000	HK$'000
Within 1 month	**48,926**	34,721
1-2 months	**17,654**	5,548
2-3 months	**3,977**	7,969
Over 3 months	**17,624**	10,201
	88,181	58,439
Less: Provision for impairment	**(701)**	(63)
	87,480	58,376

At 31 December 2016, trade receivables of HK$28,336,000 (2015: HK$23,655,000) relating to a number of independent customers were past due. After considering their creditworthiness, past collection history and settlement after the financial position date, these overdue trade receivables were not considered impaired. The past due aging analysis of these trade receivables without provision made is as follows:

	2016	2015
	HK$'000	HK$'000
Within 1 month	**9,522**	5,548
1-2 months	**1,244**	7,969
Over 2 months	**17,570**	10,138
	28,336	23,655

23 TRADE RECEIVABLES *(Continued)*

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

	2016 **HK$'000**	2015 HK$'000
US$	**27,023**	26,778
ZAR	**54,272**	12,953
EUR	**414**	9,038
KES	**3,059**	2,541
Others	**2,712**	7,066
	87,480	58,376

The maximum exposure to credit risk at the financial position date is the fair value of trade receivables mentioned above.

Movements in the provision for impairment of trade receivables are as follows:

	2016 **HK$'000**	2015 HK$'000
At 1 January	**63**	–
Provision for the year (Note 10)	**638**	63
At 31 December	**701**	63

During the year ended 31 December 2016, a provision for impairment of HK$638,000 (2015: HK$63,000) on trade receivables which have been overdue for more than 60 days was made after considering the collectibility, overdue aging analysis and past collection history of the trade receivables.

24 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 **HK$'000**	2015 HK$'000
Deposits and other receivables, net of provision	**32,177**	6,691
Current account with an associate	**4,846**	5,886
Prepayments	**18,260**	7,696
Interest receivables	**21,887**	28,549
Value added tax receivables	**244**	937
	77,414	49,759

The fair values of prepayments, deposits and other receivables approximate their carrying amounts.

Movements in the provision for impairment of certain prepayments, deposits and other receivables, which were financial assets, are as follows:

	2016 **HK$'000**	2015 HK$'000
At 1 January	**14,539**	14,536
Provision for the year (Note 10)	**215**	3
At 31 December	**14,754**	14,539

25 CASH AND BANK BALANCES

	2016 HK$'000	2015 HK$'000
Restricted cash (Note (i))		
Non-current portion	**5,045**	2,690
Current portion	**9,991**	4,581
	15,036	7,271
Pledged bank deposits (Note 28)		
Non-current portion	**66,070**	230,848
Current portion	**150,138**	228,722
	216,208	459,570
Bank deposits with original maturities over three months	**–**	2,229
Cash at banks and on hand	**31,085**	109,851
Bank deposits with original maturities of three months or less	**37,059**	113,514
Cash and cash equivalents	**68,144**	223,365
Total cash and bank balances	**299,388**	692,435
Maximum exposure to credit risk	**296,089**	690,562

Notes:

(i) At 31 December 2016, restricted bank deposits represented deposits held by a bank as top-up securities for bank loans borrowed by two wholly-owned subsidiaries.

At 31 December 2015, bank balances totalling of US$572,000 and KES2,000,000 (equivalent to approximately HK$4,581,000 in total) were current restricted deposits held at banks as guarantees pursuant to contracts signed by a wholly-owned subsidiary with its customers. The remaining balance represented non-current restricted bank deposits of US$347,000 (equivalent to approximately HK$2,690,000) held by a bank as top-up securities for bank loans borrowed by two wholly-owned subsidiaries.

(ii) Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged bank deposits and short-term bank deposits earn interest at the respective deposit rates.

25 CASH AND BANK BALANCES *(Continued)*

Notes: *(Continued)*

(iii) The carrying amounts of cash and bank balances are denominated in the following currencies:

	2016 **HK$'000**	2015 HK$'000
RMB	**254,372**	506,595
US$	**27,361**	105,985
HK$	**9,708**	70,498
EUR	**4,246**	6,199
ZAR	**398**	1,322
KES	**1,807**	790
Others	**1,496**	1,046
	299,388	692,435

(iv) The cash and bank balances of the Group denominated in RMB are not freely convertible into other currencies. However, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business in the PRC.

(v) The fair values of all bank balances approximate their carrying amounts.

26 TRADE PAYABLES

An aging analysis, based on the invoice date, of the trade payables as at the financial position date is as follows:

	2016 **HK$'000**	2015 HK$'000
Within 1 month	**50,027**	24,446
1-2 months	**20,410**	4,940
2-3 months	**3,915**	1,992
Over 3 months	**4,782**	5,335
	79,134	36,713

26 TRADE PAYABLES *(Continued)*

Notes:

(i) The carrying amounts of trade payables are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
EUR	**7,586**	11,957
ZAR	**53,238**	10,591
US$	**13,445**	7,299
KES	**570**	3,073
HK$	**398**	564
Others	**3,897**	3,229
	79,134	36,713

(ii) The fair value of trade payables approximates its carrying amount.

27 OTHER PAYABLES AND ACCRUALS

	2016 HK$'000	2015 HK$'000
Accrued expenses	**19,628**	21,063
Investment payables (Note (i))	**7,213**	7,208
Derivative financial liabilities (Note (ii))	**1,851**	1,851
Receipts in advance	**12,924**	8,389
Advances from related companies	**–**	5,697
Others	**8,119**	3,397
	49,735	47,605

Notes:

(i) At 31 December 2016, the investment payables include the consideration payable to COL of US$900,000 (equivalent to approximately HK$6,980,000) (2015: US$900,000 (equivalent to approximately HK$6,975,000)) and the consideration payable to Boyojoy for the second stage of subscription of US$30,000 (equivalent to approximately HK$233,000) (2015: US$30,000 (equivalent to approximately HK$233,000)).

(ii) There was no fair value change in the Group's level 3 financial liabilities during the year ended 31 December 2016.

28 BORROWINGS

	2016 HK$'000	2015 HK$'000
Non-current portion		
Bank loans	**66,971**	218,058
Finance leases	**63,351**	94,095
Other loan	**161**	–
	130,483	312,153
Facility arrangement fees	**(1,380)**	(4,517)
	129,103	307,636
Current portion		
Bank loans	**156,424**	220,921
Finance leases	**30,739**	14,936
Other loan	**518**	–
	187,681	235,857
Total borrowings	**316,784**	543,493

The fair values of the borrowings approximate their carrying amounts. The fair value of the non-current borrowings are based on market quotes or estimates using discounted cash flow calculations based upon the Group's current incremental borrowing rates for similar types of borrowings.

28 BORROWINGS *(Continued)*

(a) Bank Loans

The bank loans are repayable as follows:

	2016 **HK$'000**	2015 HK$'000
Within 1 year	**156,424**	220,921
After 1 year but within 2 years	**66,971**	151,135
After 2 years but within 5 years	**–**	66,923
	223,395	438,979
Facility arrangement fees	**(1,380)**	(4,517)
Less: current portion	**(156,424)**	(220,921)
Non-current portion	**65,591**	213,541
Bank loans denominated in:		
US$	**218,214**	438,979
ZAR	**5,181**	–
	223,395	438,979

The bank loans denominated in US$ bear interests with reference to London Interbank Offered Rate US$ Interest Rate plus margins ranging from 2.8% to 3.0% per annum (2015: 2.2% to 3.0% per annum) with due dates in 2017 and 2018. The bank loans are secured by pledged bank deposits of approximately RMB193,400,000 (equivalent to approximately HK$216,208,000) (2015: RMB385,019,000 (equivalent to approximately HK$459,570,000)) and total restricted bank deposits of US$1,939,000 (equivalent to approximately HK$15,036,000) (2015: non-current restricted bank deposits of US$347,000 (equivalent to approximately HK$2,690,000)) (Note 25). During the year ended 31 December 2016, bank loans of US$28,504,000 (equivalent to approximately HK$220,921,000) (2015: Nil) had been settled.

The bank loans denominated in ZAR bear interests with reference to South African Prime Rate at 10% per annum (2015: N/A) and are repayable 3 months after the respective drawdown dates. At 31 December 2016, these bank loans are secured by certain trade receivables of ZAR16,460,000 (equivalent to approximately HK$9,366,000) (2015: N/A) and are guaranteed by an indirect wholly-owned subsidiary of the Company to the maximum extent of ZAR14,000,000 (equivalent to approximately HK$7,966,000) (2015: N/A). During the year ended 31 December 2016, bank loans of ZAR353,618,000 (equivalent to approximately HK$201,209,000) (2015: N/A) had been settled.

28 BORROWINGS *(Continued)*

(b) Finance Leases

	2016 **HK$'000**	2015 HK$'000
Future payments	**110,460**	132,421
Future finance charges on finance leases	**(16,370)**	(23,390)
Present value of finance lease liabilities	**94,090**	109,031
Less: current portion	**(30,739)**	(14,936)
Non-current portion	**63,351**	94,095

The present value of finance lease liabilities is repayable as follows:

	2016 **HK$'000**	2015 HK$'000
Within 1 year	**30,739**	14,936
After 1 year but within 2 years	**18,281**	30,512
After 2 years but within 5 years	**45,070**	63,583
	94,090	109,031

The finance leases are denominated in US$ and interest rates underlying the obligations under finance leases are fixed at their respective rates ranging from 3.48% to 9.77% per annum (2015: 3.38% to 9.77% per annum).

The finance leases arranged for certain aircraft are effectively secured as the rights to the leased aircraft revert to the lessors in the event of default and part of the finance leases are also secured by the personal guarantees of 3 directors of a subsidiary and certain members of their respective families.

The net carrying amount of the aircraft under finance leases as at 31 December 2016 amounted to HK$124,011,000 (2015: HK$136,144,000).

28 BORROWINGS *(Continued)*

(c) Other Loan

The other loan is repayable as follows:

	2016 **HK$'000**	2015 HK$'000
Within 1 year	**518**	–
After 1 year but within 2 years	**161**	–
	679	–
Less: current portion	**(518)**	–
Non-current portion	**161**	**–**

The other loan is denominated in EUR, unsecured and bears interest at the rate of 10% per annum with due date in 2018.

(d) Effective Interest Rates

The effective annual interest rates incurred on borrowings are as follows:

	2016	2015
Bank loans	**2.64%-10.00%**	2.46%-4.14%
Finance leases	**3.53%-9.91%**	3.43%-9.90%
Other loan	**10.00%**	N/A

29 FINANCIAL INSTRUMENTS BY CATEGORY

	2016 HK$'000	2015 HK$'000
Loans and receivables		
– Trade receivables (Note 23)	**87,480**	58,376
– Deposits and other receivables	**58,910**	41,126
– Cash and bank balances (Note 25)	**299,388**	692,435
	445,778	791,937
Available-for-sale financial assets (Note 21)	**1,342**	31,090
	447,120	823,027
Other financial liabilities at amortised costs		
– Trade payables (Note 26)	**79,134**	36,713
– Other payables and accruals	**34,960**	37,365
– Borrowings (Note 28)	**316,784**	543,493
	430,878	617,571
Derivative financial liabilities (Note 27)	**1,851**	1,851
Other long-term liabilities (Note 13)	**6,963**	–
	439,692	619,422

30 SHARE CAPITAL

	Ordinary shares of HK$0.10 each	
	Number of shares	HK$'000
Authorised		
At 31 December 2015 and 2016	3,000,000,000	300,000
Issued and fully paid		
At 1 January 2015 and 31 December 2015	1,229,503,003	122,950
Issue of new shares under exercise of share options on 14 January, 15 January, 4 February and 12 May 2016 (Notes 31 and (i))	4,200,000	420
At 31 December 2016	1,233,703,003	123,370

30 SHARE CAPITAL *(Continued)*

Notes:

(i) The proceeds of the above issues of shares were utilised as additional working capital of the Group.

(ii) On 13 March 2017, the Company issued 216,000,000 new shares at an issue price of HK$0.90 each. Net proceeds of HK$192,456,000 was raised for the working capital for the development and expansion of the Group's existing aviation and logistics business.

31 SHARE OPTIONS

(a) Share Option Schemes

The Company adopted a share option scheme (the "Old Scheme") on 26 June 2002. On 28 March 2012, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted by the Company. The New Scheme continues to recognise and acknowledge the contributions of the Eligible Participants (as defined in the New Scheme) to the Group. The New Scheme is also designed to provide incentives and help the Group in retaining its existing employees and recruiting additional employees.

The New Scheme is valid and effective for a period of 10 years commencing from 28 March 2012, the date of the approval of the New Scheme. Subscription price in relation to each option pursuant to the New Scheme shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date on which the option is offered to an Eligible Participant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the shares. The options are exercisable within the option period as determined by the Board of the Company.

Pursuant to the New Scheme, the Company can grant options to Eligible Participants for a consideration of HK$1 for each grant payable by the Eligible Participants to the Company. The total number of shares issued and to be issued upon exercise of options granted to each Eligible Participant (including exercised, cancelled and outstanding options) in any twelve-month period shall not exceed 1% of the shares then in issue. During the year ended 31 December 2016, 24,632,060 share options were granted under the New Scheme (2015: Nil). At the financial position date, the total number of options that can be granted was 82,098,740 (2015: 106,730,800).

31 SHARE OPTIONS *(Continued)*

(a) Share Option Schemes *(Continued)*

Pursuant to the Board resolutions passed on 29 April 2016 and 22 August 2016 respectively, the following share options were granted under the New Scheme with fair values using the Binomial option pricing model with the following input variables:

Date of grant of share options	Number of options	Exercise price per option HK$	Exercise period of share options	Date of appraisal	Fair value per option HK$	Risk-free interest rate	Expected dividend yield per share	Expected volatility	Closing price of shares before the date of grant of share options HK$	Expected life
29/04/2016	12,295,030	1.254	29/04/2016 to 28/04/2019	29/04/2016	0.2650	0.678%	0%	83.3%	1.190	29/04/2016 to 28/04/2019
22/08/2016	12,337,030	1.100	22/08/2017 to 21/08/2021	22/08/2016	0.5766	0.708%	0%	79.6%	1.080	22/08/2016 to 21/08/2021

31 SHARE OPTIONS *(Continued)*

(a) Share Option Schemes *(Continued)*

Movements in the number of outstanding share options and their related weighted average exercise prices were as follows:

	2016 Weighted average exercise price per share HK$	**2016** Number of options	2015 Weighted average exercise price per share HK$	2015 Number of options
Old Scheme				
At 1 January and 31 December (Note (i))	**1.990**	**1,000,000**	1.990	1,000,000
New Scheme				
At 1 January	**1.460**	**115,477,828**	1.460	115,477,828
Granted	**1.177**	**24,632,060**		–
Exercised	**0.970**	**(4,200,000)**		–
Lapsed	**1.265**	**(2,960,000)**		–
At 31 December	**1.424**	**132,949,888**	1.460	115,477,828
Total		**133,949,888**		116,477,828

Out of the 133,949,888 outstanding options as at 31 December 2016 (2015: 116,477,828), 87,426,915 options were exercisable (2015: 48,105,942). 4,200,000 share options were exercised during the year ended 31 December 2016 (2015: Nil), resulted in 4,200,000 shares issued with weighed average exercise price of HK$0.97 per share.

31 SHARE OPTIONS *(Continued)*

(a) Share Option Schemes *(Continued)*

Share options outstanding at the financial position date have the following expiry dates and exercise prices:

Expiry date	Exercise price per share HK$	Number of options 2016	2015
Old Scheme			
11 February 2017	**1.990**	**1,000,000**	1,000,000
New Scheme			
9 January 2018	**1.500**	**102,557,828**	102,557,828
28 April 2019	**1.254**	**12,295,030**	–
7 April 2020	**0.970**	**4,200,000**	9,800,000
17 September 2020	**1.530**	**1,560,000**	3,120,000
21 August 2021	**1.100**	**12,337,030**	–
		132,949,888	115,477,828
		133,949,888	116,477,828

31 SHARE OPTIONS *(Continued)*

(a) Share Option Schemes *(Continued)*

The details of movements of the outstanding share options during the year are as follows:

	Outstanding options at 1 January 2016	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options reclassified during the year	Outstanding options at 31 December 2016	Weighted average closing price before dates of exercise HK$
Old Scheme							
Date of grant	12 February 2007						
Exercise price per option	HK$1.990						
Exercise period	12 August 2007- 11 February 2017						
Held by a service provider							
In aggregate (Note (i))	500,000	–	–	–	–	500,000	–
Date of grant	12 February 2007						
Exercise price per option	HK$1.990						
Exercise period	12 February 2008- 11 February 2017						
Held by a service provider							
In aggregate (Note (i))	500,000	–	–	–	–	500,000	–
New Scheme							
Date of grant	10 January 2014						
Exercise price per option	HK$1.500						
Exercise period	10 January 2015- 9 January 2018						
Held by a director							
Mr Erik D. Prince	34,185,942	–	–	–	–	34,185,942	–

31 SHARE OPTIONS *(Continued)*

(a) Share Option Schemes *(Continued)*

	Outstanding options at 1 January 2016	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options reclassified during the year	Outstanding options at 31 December 2016	Weighted average closing price before dates of exercise HK$
New Scheme *(Continued)*							
Date of grant	10 January 2014						
Exercise price per option	HK$1.500						
Exercise period	10 January 2016-9 January 2018						
Held by a director							
Mr Erik D. Prince	34,185,943	–	–	–	–	34,185,943	–
Date of grant	10 January 2014						
Exercise price per option	HK$1.500						
Exercise period	10 January 2017-9 January 2018						
Held by a director							
Mr Erik D. Prince	34,185,943	–	–	–	–	34,185,943	–
Date of grant	8 April 2014						
Exercise price per option	HK$0.970						
Exercise period	8 April 2015-7 April 2020						
Held by directors							
Mr Yap Fat Suan, Henry	1,400,000	–	–	–	–	1,400,000	
Professor Lee Hau Leung	1,400,000	–	(1,400,000)	–	–	–	
Mr William J. Fallon (Note (ii))	1,400,000	–	–	(1,400,000)	–	–	
Dr Harold O. Demuren	1,400,000	–	(1,400,000)	–	–	–	
Held by employees							
In aggregate	4,200,000	–	(1,400,000)	–	–	2,800,000	
	9,800,000	–	(4,200,000)	(1,400,000)	–	4,200,000	1.3353

31 SHARE OPTIONS *(Continued)*

(a) Share Option Schemes *(Continued)*

	Outstanding options at 1 January 2016	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options reclassified during the year	Outstanding options at 31 December 2016	Weighted average closing price before dates of exercise HK$
New Scheme *(Continued)*							
Date of grant	18 September 2014						
Exercise price per option	HK$1.530						
Exercise period	18 September 2015-17 September 2020						
Held by employees							
In aggregate	1,560,000	–	–	(780,000)	(780,000)	–	
Held by a service provider							
In aggregate	–	–	–	–	780,000	780,000	
	1,560,000	–	–	(780,000)	–	780,000	–
Date of grant	24 September 2014						
Exercise price per option	HK$1.530						
Exercise period	18 September 2015-17 September 2020						
Held by employees							
In aggregate	1,560,000	–	–	(780,000)	(780,000)	–	
Held by a service provider							
In aggregate	–	–	–	–	780,000	780,000	
	1,560,000	–	–	(780,000)	–	780,000	–
Date of grant	29 April 2016						
Exercise price per option	HK$1.254						
Exercise period	29 April 2016-28 April 2019						
Held by a director							
Mr Gregg H. Smith (Note (iii))	–	12,295,030	–	–	(12,295,030)	–	
Held by a service provider							
In aggregate	–	–	–	–	12,295,030	12,295,030	
	–	12,295,030	–	–	–	12,295,030	–
Date of grant	22 August 2016						
Exercise price per option	HK$1.100						
Exercise period	22 August 2017-21 August 2021						
Held by a director							
Dr Hua Dongyi	–	12,337,030	–	–	–	12,337,030	–

31 SHARE OPTIONS *(Continued)*

(a) Share Option Schemes *(Continued)*

Notes:

(i) The share options were subsequently lapsed on 12 February 2017.

(ii) Mr William J. Fallon resigned as an independent non-executive director of the Company with effect from 30 April 2016.

(iii) Mr Gregg H. Smith resigned as an executive director and the Chief Executive Officer of the Company with effect from 1 May 2016 but remains as a consultant for the Company until 31 December 2016.

(b) Other Options

The details of movements of the outstanding options of the Company other than those issued by the Company under its share option schemes during the year ended 31 December 2016 are as follows:

	Outstanding options at 1 January 2016	Options granted during the year	Options exercised during the year	Options lapsed during the year	Outstanding options at 31 December 2016	Weighted average closing price before dates of exercise HK$
Mr Erik D. Prince (Note (i))	205,115,657	–	–	–	205,115,657	–
Reorient Financial Market Limited ("RFML") (Note (ii))	22,790,628	–	–	–	22,790,628	–
	227,906,285	–	–	–	227,906,285	

Notes:

(i) These 205,115,657 options were issued on 3 December 2013 and are exercisable for a five-year period from 3 December 2013 to 2 December 2018 at an exercise price of HK$0.73 per share.

(ii) On 14 January 2014, option rights to subscribe up to 22,790,628 new shares of the Company at an exercise price of HK$0.80 per share were granted to RFML for the settlement of the financial advisory service provided by RFML with a fair value of HK$0.9003 per option. These option rights were subsequently lapsed on 14 January 2017.

31 SHARE OPTIONS *(Continued)*

(b) Other Options *(Continued)*

All outstanding other options were exercisable at 31 December 2016 (2015: Same). No other options were exercised during the years ended 31 December 2016 and 2015.

32 SHARE AWARD SCHEME

The Company has adopted a share award scheme on 10 December 2015. The share award scheme does not constitute a share option scheme for the purpose of Chapter 17 of the Listing Rules. The purposes and objectives of the share award scheme are to recognise the contributions by Eligible Persons (as defined in the share award scheme) and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract personnel for further development of the Group.

During the year ended 31 December 2016, 10,067,000 shares were granted to certain Eligible Persons under the share award scheme, out of which 857,000 shares were lapsed, 6,705,000 shares were vested at 31 December 2016 and 2,505,000 shares will be vested on 31 December 2017.

During the year ended 31 December 2016, based on the recommendation of the Board of the Company, the trustee of the share award scheme acquired 6,705,000 shares of the Company in the market at an aggregate amount of HK$7,848,000 for the share award scheme. At 31 December 2016, all these 6,705,000 shares were vested to the Eligible Person and no share of the Company was held in trust for the share award scheme by the trustee of the share award scheme.

33 RESERVES

	Share premium HK$'000 Note (i)	Shares held for share award scheme HK$'000 Note 32	Contributed surplus HK$'000 Note (ii)	Exchange reserve HK$'000 Note (iii)	General reserve HK$'000 Note (iv)	Equity instrument reserve HK$'000 Note (v)	Share-based compensation reserve HK$'000 Note (vi)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	121,047	–	628,235	54,181	32,233	180,038	39,469	(474,195)	581,008
Loss for the year	–	–	–	–	–	–	–	(142,920)	(142,920)
Other comprehensive income/(loss)									
– Foreign exchange differences	–	–	–	(49,995)	–	–	–	–	(49,995)
– Change in value of available-for-sale financial assets (Note 21)	–	–	–	–	–	279,433	–	–	279,433
– Realisation of equity instrument reserve upon disposal of available-for-sale financial assets	–	–	–	–	–	(283,399)	–	–	(283,399)
Other comprehensive loss for the year, net of tax	–	–	–	(49,995)	–	(3,966)	–	–	(53,961)
Total comprehensive loss for the year	–	–	–	(49,995)	–	(3,966)	–	(142,920)	(196,881)
Transactions with equity holders									
– Share-based compensation	–	–	–	–	–	–	19,668	–	19,668
At 31 December 2015	121,047	–	628,235	4,186	32,233	176,072	59,137	(617,115)	403,795

33 RESERVES *(Continued)*

	Share premium HK$'000 Note (i)	Shares held for share award scheme HK$'000 Note 32	Contributed surplus HK$'000 Note (ii)	Exchange reserve HK$'000 Note (iii)	General reserve HK$'000 Note (iv)	Equity instrument reserve HK$'000 Note (v)	Share-based compensation reserve HK$'000 Note (vi)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	121,047	–	628,235	4,186	32,233	176,072	59,137	(617,115)	403,795
Loss for the year	–	–	–	–	–	–	–	(209,816)	(209,816)
Other comprehensive loss									
– Foreign exchange differences	–	–	–	(21,338)	–	–	–	–	(21,338)
– Change in value of available-for-sale financial assets (Note 21)	–	–	–	–	–	(11,815)	–	–	(11,815)
– Realisation of equity instrument reserve upon disposal of available-for-sale financial assets	–	–	–	–	–	(10,910)	–	–	(10,910)
Other comprehensive loss for the year, net of tax	–	–	–	(21,338)	–	(22,725)	–	–	(44,063)
Total comprehensive loss for the year	–	–	–	(21,338)	–	(22,725)	–	(209,816)	(253,879)
Disposal of subsidiaries	–	–	–	(8,202)	(19,334)	–	–	19,334	(8,202)
Transactions with equity holders									
– Share-based compensation	–	–	–	–	–	–	21,477	–	21,477
– Exercise of share options	5,533	–	–	–	–	–	(1,880)	–	3,653
– Lapse of share options	–	–	–	–	–	–	(1,863)	1,863	–
– Shares acquired for share award scheme	–	(7,848)	–	–	–	–	–	–	(7,848)
– Vesting of shares under share award scheme	–	7,848	–	–	–	–	(7,810)	(38)	–
– Symmetrical put and call option	–	–	–	–	–	(6,963)	–	–	(6,963)
	5,533	–	–	(8,202)	(19,334)	(6,963)	9,924	21,159	2,117
At 31 December 2016	126,580	–	628,235	(25,354)	12,899	146,384	69,061	(805,772)	152,033

33 RESERVES *(Continued)*

Notes:

(i) The application of the share premium account is governed by the Companies Act 1981 of Bermuda.

(ii) The contributed surplus of the Group arose from a scheme of arrangement on 31 October 1989 and capital reorganisations on 2 November 2001 and 18 December 2007. Pursuant to the Companies Act 1981 of Bermuda, a company incorporated in Bermuda is not permitted to pay dividends or make a distribution out of the contributed surplus if there are reasonable grounds for believing that the company is, or would after the payment be, unable to pay its liabilities as they become due; or the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(iii) The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in Note 2.4.

(iv) In accordance with the PRC regulations, each of the Group's PRC subsidiaries is required to transfer not less than 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations, to the general reserve until such reserve reaches 50% of its registered capital. The quantum of the annual transfer is subject to the approval of the board of directors of the PRC subsidiaries in accordance with their articles of association.

(v) The equity instrument reserve represents:

(a) the fair value of the option rights granted for the acquisition of FSL on 3 December 2013;

(b) the fair value of the option rights granted to RFML on 14 January 2014 to subscribe up to 22,790,628 new shares of the Company at an exercise price of HK$0.80 per share for the settlement of the financial advisory service provided by RFML; and

(c) the fair value of the right derived from the symmetrical put and call option agreement signed by FSL on 3 February 2016 to purchase the remaining 49% equity interest in Maleth at an option price ranging between EUR1,000,000 (equivalent to approximately HK$8,190,000) and EUR10,000,000 (equivalent to approximately HK$81,895,000). The respective liability was recorded in other long-term liabilities on the consolidated statement of financial position.

(vi) The share-based compensation reserve represents the fair value of the unexercised share options granted under the Company's share option schemes and the fair value of the share award granted under the Company's share award scheme to the eligible participants recognised in accordance with the accounting policy set out in Note 2.20(b).

34 NON-CONTROLLING INTERESTS

	2016 **HK$'000**	2015 HK$'000
At 1 January	**116,250**	116,250
Acquisition of subsidiaries (Note 13)	**6,960**	–
Share of results	**330**	–
Exchange differences	**(12)**	–
At 31 December	**123,528**	116,250

Non-controlling interests include, inter alia, an amount of US$15,000,000 (equivalent to HK$116,250,000) preference shares issued by DVN (Group) Limited, a wholly-owned subsidiary of the Company, on 31 March 1999. The preference shareholder has the right at any time starting from 1 July 2000 to exchange all (but not part) of the preference shares into 31,250,000 ordinary shares of the Company at an exchange price which has been subsequently adjusted to HK$3.72 per share, pursuant to the Company's announcement dated 28 September 2006. The Company has the right, at its discretion, to request the preference shareholder to exercise his exchange right to exchange all (but not part) of the preference shares into the Company's ordinary shares at the exchange price at any time from 1 July 2000, provided that the average of the closing prices of the Company's ordinary shares for the 20 consecutive trading days ending on the trading day immediately preceding the date of giving notice of such compulsory exchange is not less than HK$10 per share.

35 CASH USED IN OPERATIONS

The reconciliation of loss for the year to cash used in operations is as follows:

	2016 HK$'000	2015 HK$'000
Loss for the year	**(209,486)**	(142,920)
Adjustments for		
– Income tax expenses/(credit)	**910**	(3,164)
– Interest expenses	**23,329**	21,073
– Depreciation	**31,221**	25,564
– Engine overhaul cost	**11,570**	7,796
– Amortisation of prepaid operating lease rentals and intangibles	**2,894**	1,739
– Share-based compensation	**21,477**	19,668
– Provision for impairment of trade receivables and other receivables	**853**	66
– Provision for impairment of inventories	**1,597**	12
– Provision for impairment of goodwill	**9,970**	94,975
– Provision for impairment of property, plant and equipment, net	**17,362**	66,118
– Gain on disposal of available-for-sale financial assets	**(10,712)**	(279,870)
– Net loss/(gain) on disposal of property, plant and equipment (Note (i))	**3,631**	(775)
– Gain on disposal of subsidiaries (Note (iii))	**(16,968)**	–
– Provision for impairment of interest in an associate	**–**	56
– Interest income	**(13,857)**	(21,610)
– Share of loss of associates	**561**	443
Exchange differences	**(3,610)**	12,472
Changes in working capital		
– Inventories	**1,864**	(3,720)
– Trade receivables, prepayments, deposits and other receivables	**(28,822)**	5,568
– Trade payables, other payables and accruals	**(5,572)**	22,672
Cash used in operations	**(161,788)**	(173,837)

35 CASH USED IN OPERATIONS *(Continued)*

Notes:

(i) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	2016	2015
	HK$'000	HK$'000
Net carrying amount (Note 14)	**15,394**	17,784
Net gain/(loss) on disposal of property, plant and equipment (Note 10)	**(3,631)**	775
Proceeds from disposal of property, plant and equipment	**11,763**	18,559

(ii) There was no major non-cash transaction for the years ended 31 December 2016 and 2015.

(iii) On 23 May 2016, the Group completed the disposal of the entire interest in Amazing View Limited. The effect on the financial position, the total consideration received and gain on the disposal for the year ended 31 December 2016 are as follows:

	2016
	HK$'000
Consideration received, after settlement of cost, fees and expenses	**250,009**
Net assets disposed of:	
Short-term deposit	**2,280**
Prepayments, deposits and other receivables	**161,028**
Cash and cash equivalents	**85,286**
Other payables and accruals	**(2)**
	248,592
Release of exchange reserves	**8,202**
Reimbursement of expenses	**7,349**
Gain on disposal of subsidiaries	**16,968**
Tax expenses	**(16,703)**
Gain on disposal of subsidiaries, net of tax (Note 10)	**265**
Satisfied by:	
Consideration received, after settlement of cost, fees and expenses	**250,009**
Liabilities released	**(160,211)**
Cash and cash equivalent disposed of	**(85,286)**
Tax paid	**(16,703)**
Reimbursement of expenses	**7,349**
Net cash outflow	**(4,842)**

36 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments as a Lessor

The Group leases its leasehold properties and hangars under non-cancellable operating lease agreements. The lease terms are ranging from 6 to 35 years, and the majority of the lease agreements are renewable at the end of the lease periods at market rate.

At 31 December 2016, the Group had total commitments receivable under the non-cancellable operating leases as follows:

	2016 **HK$'000**	2015 HK$'000
Not later than 1 year	**687**	331
Later than 1 year but not later than 5 years	**32**	708
Later than 5 years	**333**	343
	1,052	1,382

(b) Operating Lease Commitments as a Lessee

The Group leases certain of its offices, staff quarters and office equipment under operating lease arrangements.

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases as follows:

	2016 **HK$'000**	2015 HK$'000
Land and buildings		
– Not later than 1 year	**16,278**	13,555
– Later than 1 year but not later than 5 years	**44,770**	46,302
– Later than 5 years	**3,948**	6,438
	64,996	66,295
Office equipment		
– Not later than 1 year	**739**	–
– Later than 1 year but not later than 5 years	**1,110**	–
	1,849	–
Total		
– Not later than 1 year	**17,017**	13,555
– Later than 1 year but not later than 5 years	**45,880**	46,302
– Later than 5 years	**3,948**	6,438
	66,845	66,295

36 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

(c) Capital Expenditure Commitments

The Group's capital expenditure commitments regarding purchase of aviation equipment outstanding at the financial position date not provided for in the financial statements were as follows:

	2016 **HK$'000**	2015 HK$'000
Contracted for	**–**	1,527

(d) Financial Commitments

The Group did not have any significant financial commitments at 31 December 2016 (2015: Nil).

(e) Contingent Liabilities

The Group, in the ordinary course of its business, is involved in various claims, suits, investigations, and legal proceedings that arise from time to time. Although the Group does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on its financial position or results of operations, litigation is inherently unpredictable. Therefore, the Group could incur judgements or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period.

An indirect wholly-owned subsidiary of the Company has pledged an aircraft as securities for its banking facilities of US$3,000,000 (equivalent to approximately HK$23,268,000). At 31 December 2016, this subsidiary had contingent liabilities up to US$1,420,000 (equivalent to approximately HK$11,014,000) in respect of certain guarantees issued by the bank under the banking facilities for the performance of certain sales contracts of the subsidiary (2015: Nil).

37 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with Related Parties

Transactions between the Company and its subsidiaries, which are related parties to the Company, have been eliminated on consolidation and are not disclosed in this note. In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, the Group entered into the following material transactions with related parties during the year:

	2016 **HK$'000**	2015 HK$'000
Receipt of consultancy services from		
– A company owned by a director of the Company (Note (i))	**5,950**	5,623
– A company owned by a director of a subsidiary (Note (ii))	**1,428**	2,015
– A company owned by a director of certain subsidiaries (Note (iii))	**–**	2,543
Receipt of security trading services from		
– A related company of a director of the Company (Note (iv))	**–**	3,186
Payment of operating lease rental on equipment to		
– A company owned by a director of certain subsidiaries (Note (v))	**–**	2,081
Payment of rental expenses of aircraft to		
– A company owned by a director of a subsidiary (Note (vi))	**–**	530
Payment of rental expenses of leasehold property to		
– A company owned by 3 directors of a subsidiary (Note (vii))	**1,097**	2,016
Receipt of rental income of leasehold property from		
– A company owned by 3 directors of a subsidiary (Note (vii))	**16**	8
Purchase of a subsidiary and certain trucking vehicles from		
– A related company of a director of the Company (Note (viii))	**–**	10,077
Provision of logistics services to		
– Companies owned by a director of subsidiaries (Note (ix))	**2,462**	14

All the transactions were negotiated with related parties on normal commercial terms or in accordance with the agreements governing those transactions.

37 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with Related Parties *(Continued)*

Notes:

(i) On 8 April 2014, FSL entered into a service agreement with Frontier Opportunities Limited ("FOL"), a company wholly owned by Mr Erik D. Prince, pursuant to which FOL would provide FSL certain business development services, strategic guidance, and project sourcing and management services for a term of 3 years from 8 April 2014 to 7 April 2017. During the year ended 31 December 2016, service fee of US$757,000 (equivalent to approximately HK$5,950,000) (2015: US$725,000 (equivalent to approximately HK$5,623,000)) were incurred to FOL in accordance with the terms of the service agreement.

(ii) This represents consultancy fee of US$184,000 (equivalent to approximately HK$1,428,000) (2015: US$260,000 (equivalent to approximately HK$2,015,000)) made by the Group to D Barak Consulting Ltd, a company wholly owned by a director of KAL, for consultancy services provided to the Group in accordance with the terms of the related consultancy agreement.

(iii) This represents consultancy fee of US$328,000 (equivalent to approximately HK$2,543,000) made by the Group to Mwongozo East Africa Limited ("Mwongozo"), a company wholly owned by a director of certain subsidiaries, for consultancy services provided to the Group in accordance with the terms of the related service agreement.

(iv) This represents commission paid by the Company for security trading services provided by RFML, a related company of Mr Ko Chun Shun, Johnson.

(v) During the year ended 31 December 2015, operating lease rental on equipment of US$268,000 (equivalent to approximately HK$2,081,000) were paid by the Group to Mwongozo.

(vi) Prior to the acquisition of PAL, PAL entered into lease agreements with A.C.L. Aviation Limited ("ACL"), a company wholly owned by a director of PAL, for the lease of two aircraft from ACL for a term up to 31 December 2015 for a monthly rental payment of US$45,500 (equivalent to approximately HK$358,600).

During the year ended 31 December 2015, the lease agreements were early terminated by the parties and the rental payment of US$68,000 (equivalent to approximately HK$530,000) were incurred to ACL in accordance with the terms of the lease agreements.

37 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with Related Parties *(Continued)*

Notes: *(Continued)*

(vii) Prior to the acquisition of PAL, PAL entered into a lease agreement on 2 March 2014 with Quadco Two Hundred and Seventy Seven Limited ("Quadco", a company wholly owned by three directors of PAL), pursuant to which PAL would lease its leasehold property, Phoenix House, to Quadco for a term of 35 years from 2 March 2014 to 31 May 2049 at an annual rent of (i) KES104,300 (equivalent to approximately HK$9,000) for the period from 2 March 2014 to 1 June 2019; (ii) KES135,590 (equivalent to approximately HK$12,000) for the period from 2 June 2019 to 1 June 2034; and (iii) KES176,267 (equivalent to approximately HK$16,000) for the period from 2 June 2034 to 31 May 2049.

On 2 March 2014, Quadco also entered into a sub-lease agreement with PAL to sublease a portion of Phoenix House to PAL for a term of 6 years from 1 May 2014 to 30 April 2020 at an annual rent of (i) US$72,000 (equivalent to approximately HK$558,000) for the period from 1 May 2014 to 30 April 2016; (ii) US$75,600 (equivalent to approximately HK$586,000) for the period from 1 May 2016 to 30 April 2018; and (iii) US$79,380 (equivalent to approximately HK$616,000) for the period from 1 May 2018 to 30 April 2020.

During the year ended 31 December 2016, rental income of KES209,000 (equivalent to approximately HK$16,000) (2015: KES102,000 (equivalent to approximately HK$8,000)) was earned from Quadco and rental expenses of US$141,000 (equivalent to approximately HK$1,097,000) (2015: US$260,000 (equivalent to approximately HK$2,016,000)) were incurred to Quadco in accordance with the terms of the lease agreement and the sub-lease agreement respectively.

(viii) It represents the acquisition of Cheetah and certain trucking vehicles by the Group from FRG Distribution and Logistics Holdings Limited, a company of which is 49% beneficially owned by Mr Erik D. Prince, during the year ended 31 December 2015.

(ix) It represents the provision of logistics services by TFF to certain companies owned by a director of TFF during the year ended 31 December 2016.

(x) The related party transactions in respect of notes (i), (vii) and (ix) above, also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

37 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Details of Key Management Compensation of the Group

	2016 HK$'000	2015 HK$'000
Short-term employee benefits	**18,591**	27,814
Post-employment benefits	**268**	288
Share-based compensation	**18,989**	18,446
Termination benefits	**963**	–
	38,811	46,548

The directors, the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer of the Company are regarded as the key management personnel of the Group.

(c) Year-End Balances Arising from Sales/Purchases and Services Rendered

	2016 HK$'000	2015 HK$'000
Trade receivables		
– A company owned by a director of a subsidiary	**–**	473
– A company owned by 3 directors of a subsidiary	**18**	–
– Companies owned by a director of certain subsidiaries	**385**	15
Trade payables		
– A company owned by 3 directors of a subsidiary	**6**	405

(d) Other Year-End Balances

	2016 HK$'000	2015 HK$'000
Prepayments, deposits and other receivables		
– A company owned by a director of a subsidiary	**–**	72
– Companies owned by a director of certain subsidiaries	**7,559**	152
– An associate	**4,846**	5,886
Other payables and accruals		
– Companies owned by a director of certain subsidiaries	**–**	5,697
– A related company of a director of the Company	**1,649**	1,570
– Associates	**6,962**	6,957

38 EVENTS AFTER THE FINANCIAL POSITION DATE

Except as disclosed in Note 30 for the share placement on 13 March 2017, the Group did not have any other material events occurred subsequent to the financial position date.

39 COMPARATIVE FIGURES

Certain comparative figures have been represented to conform to current year's presentation.

40 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**130**	272
Intangibles	**1,350**	1,350
Interests in subsidiaries	**324,942**	633,873
Total non-current assets	**326,422**	635,495
CURRENT ASSETS		
Prepayments, deposits and other receivables	**2,335**	1,889
Available-for-sale financial assets	**1,281**	31,000
Cash and cash equivalents	**13,811**	137,680
Total current assets	**17,427**	170,569
CURRENT LIABILITIES		
Other payables and accruals	**10,596**	18,812
Total current liabilities	**10,596**	18,812
Net current assets	**6,831**	151,757
Total assets less current liabilities/Net assets	**333,253**	787,252
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	**123,370**	122,950
Reserves (Note(i))	**209,883**	664,302
Total equity	**333,253**	787,252

Signed on behalf of the Board on 22 March 2017 by

Erik D. Prince
Director

Hua Dongyi
Director

40 STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

(i) Reserve Movements of the Company

	Share premium HK$'000	Shares held for share award scheme HK$'000	Contributed surplus HK$'000	Equity instrument reserve HK$'000	Share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	121,047	–	558,899	180,038	39,469	(461,545)	437,908
Profit for the year	–	–	–	–	–	210,692	210,692
Other comprehensive income/(loss)							
– Change in value of available-for-sale financial assets	–	–	–	279,433	–	–	279,433
– Realisation of equity instrument reserve upon disposal of available-for-sale financial assets	–	–	–	(283,399)	–	–	(283,399)
Other comprehensive loss for the year, net of tax	–	–	–	(3,966)	–	–	(3,966)
Total comprehensive income/(loss) for the year	–	–	–	(3,966)	–	210,692	206,726
Transactions with equity holders							
– Share-based compensation	–	–	–	–	19,668	–	19,668
At 31 December 2015	121,047	–	558,899	176,072	59,137	(250,853)	664,302

40 STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note: *(Continued)*

(i) Reserve Movements of the Company *(Continued)*

	Share premium HK$'000	Shares held for share award scheme HK$'000	Contributed surplus HK$'000	Equity instrument reserve HK$'000	Share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	121,047	–	558,899	176,072	59,137	(250,853)	664,302
Loss for the year	–	–	–	–	–	(447,740)	(447,740)
Other comprehensive loss							
– Change in value of available-for-sale financial assets	–	–	–	(11,815)	–	–	(11,815)
– Realisation of equity instrument reserve upon disposal of available-for-sale financial assets	–	–	–	(10,910)	–	–	(10,910)
Other comprehensive loss for the year, net of tax	–	–	–	(22,725)	–	–	(22,725)
Total comprehensive loss for the year	–	–	–	(22,725)	–	(447,740)	(470,465)
Transactions with equity holders							
– Share-based compensation	–	–	–	–	21,477	–	21,477
– Exercise of share options	5,533	–	–	–	(1,880)	–	3,653
– Lapse of share options	–	–	–	–	(1,863)	627	(1,236)
– Shares acquired for share award scheme	–	(7,848)	–	–	–	–	(7,848)
– Vesting of shares under share award scheme	–	7,848	–	–	(7,810)	(38)	–
	5,533	–	–	–	9,924	589	16,046
At 31 December 2016	126,580	–	558,899	153,347	69,061	(698,004)	209,883

Five Year Financial Summary

The consolidated results, and assets and liabilities of the Group for the last five financial years are summarised below.

	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Loss/(profit) attributable to:					
– Equity holders of the Company	**209,816**	142,920	130,440	182,227	214,672
– Non-controlling interests	**(330)**	–	532	168	52
	209,486	142,920	130,972	182,395	214,724
Assets and liabilities					
Total assets	**912,467**	1,349,713	1,400,773	886,278	895,075
Total liabilities	**(513,536)**	(706,718)	(580,565)	(130,612)	(117,451)
Non-controlling interests	**(123,528)**	(116,250)	(116,250)	(116,782)	(116,250)
Equity attributable to the Company's equity holders	**(275,403)**	(526,745)	(703,958)	(638,884)	(661,374)