SkyNet Group Limited

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(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8176)

2016

Annual Report

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*This annual report, for which the directors (the "**Directors**" and each the "**Director**") of SkyNet Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this annual report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this annual report misleading.*

This annual report will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company's website at www.skynetgroup.com.hk.

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COMPANY INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Cai Zhaoyang *(Chairman and Chief Executive Officer)*
Mr. Chan Kin Wah, Billy
Mr. Lee Chan Wah
Dr. Andrew Goldenberg
Mr. Zhang Chongdi
Mr. Zhang Chong

Independent non-executive Directors

Mr. Tam B Ray, Billy
Mr. Chu Kin Wang, Peleus
Mr. Tse Joseph

COMPANY SECRETARY

Mr. Lee Chan Wah

COMPLIANCE OFFICER

Mr. Chan Kin Wah, Billy

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

AUTHORISED REPRESENTATIVES

Mr. Lee Chan Wah
Mr. Chan Kin Wah, Billy

REMUNERATION COMMITTEE

Mr. Chu Kin Wang, Peleus *(Chairman)*
Mr. Chan Kin Wah, Billy
Mr. Tse Joseph

AUDIT COMMITTEE

Mr. Chu Kin Wang, Peleus *(Chairman)*
Mr. Tam B Ray, Billy
Mr. Tse Joseph

NOMINATION COMMITTEE

Mr. Chu Kin Wang, Peleus *(Chairman)*
Mr. Chan Kin Wah, Billy
Mr. Tam B Ray, Billy

SPECIAL INVESTIGATION COMMITTEE

Mr. Chan Kin Wah, Billy *(Chairman)*
Mr. Tam B Ray, Billy
Mr. Chu Kin Wang, Peleus
Mr. Tse Joseph

PRINCIPAL BANKERS

China CITIC Bank International Limited
Chong Hing Bank Limited

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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REGISTERED OFFICE

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2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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LEGAL ADVISORS

As to Hong Kong Law
Micheal Li & Co

As to Bermuda Law
Conyers Dill and Pearman

As to PRC Law
Guantao Law Firm

WEBSITE

www.skynetgroup.com.hk

STOCK CODE

8176

CHAIRMAN'S STATEMENT

Dear Shareholders,

I present herewith the audited consolidated financial statements of the Group for the year ended 31 December 2016.

The down-cycle of the Hong Kong's tourism industry continued to take its toll on our sale of beauty products and provision of therapy services (collectively the "Beauty Business"). We took a series of responsive measures such as reshaping our sales model, streamlining the offerings and rearranging the working space. Although we do not expect significant growth in Beauty Business in short term, Chinese middle-class population continues to grow and personal-health awareness keeps on rising, we have confidence in the long-term prospects of beauty and therapy market.

For our provision of engineering products and related service business (the "Engineering Business"), we were making healthy progress. The Parts Manufacturers Approval (the "**PMA**") for in-flight WLAN equipment awarded to us by the CAAC Central of Southern Regional Administration of Civil Aviation Administration of China ("**CAAC**") in last January paved the way to the commercial production of our in-flight WLAN or WIFI connection equipment.

In addition, the Group has completed the development of a proprietary software platform and user interface for the use on the in-flight WLAN and WIFI system, which will be a solid foundation for our offerings going forward.

We have been seeking strategic opportunities for our Engineering Business so that the Company's long-term prospects and its Shareholders' value can be enhanced. The launching of robotics and automation ("**R&A**") products, reinforced by the acquisition of Engineering Service Inc. ("**ESI**") marked an important milestone.

China is the world's largest industrial robotics market and its service robotics market has bright prospects. However, the domestic robotics industry lacks the core technologies necessary to the production of key parts and components. It has to rely heavily on the importation. Those enterprises which are able to fill the gap are expected to capture huge market opportunities. Now, we are confident we can be a serious contender for those opportunities.

The Toronto-based ESI, led by robotics pioneer Dr. Andrew Goldenberg, has developed a portfolio of in-house patents and proprietary know-how's in respect of sophisticated, yet versatile, robotic technologies. It has also built up a team of high-caliber research engineers working closely together. The acquisition allowed us to integrate into our R&A products much sought-after resources, both technological and human ones, pivotal for us to break new grounds in terms of product range as well as regional coverage.

The first batch of R&A products was proudly delivered in last December. We are confident the first phase of mass production will start once the pilot phrase is completed. Furthermore, in December 2016, the Group has entered into a cooperative agreement with a local partner in PRC to form a joint venture to acquire the entire shareholding of 深圳安澤智能工程有限公司 ("Shenzhen Anzer Intelligent Engineering Co., Ltd." or "Anzer") for a cash consideration of RMB500,000. Anzer is a company established in Shenzhen, the PRC and possesses its own facility qualified for R&A production. The acquisition has been completed in February 2017. Going forward, we intend to further develop our R&A products through acquisition and/or cooperative/strategic partnership so that its resources, engineering capabilities and market acceptance can be further strengthened.

Finally, I would like to thank our board of Directors (the "**Board**"), management and staff for their contribution to the Group. I would also like to extend my sincere gratitude to our shareholders, business partners, customers and suppliers for their continuous supports.

Cai Zhaoyang
Executive Director, Chairman and Chief Executive Officer

Hong Kong, 8 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the sale of beauty products and provision of therapy services (collectively, the "**Beauty Business**"), as well as the provision of engineering products and related service (the "**Engineering Business**"). For the sale of beauty products, the Group offers a variety of beauty products under the brand name "Evidens de Beauté", and a variety of medical skincare products, including the brand "Activa". For the provision of therapy services, the Group operates a medical skincare centre under the trade name "COLLAGEN+" at Soundwill Plaza in Causeway Bay.

For the engineering products, the Group offers WLAN and WIFI systems, and robotic products. For the provision of engineering related services, the Group provides equipment installation, support and maintenance services for WLAN and WIFI systems as well as robotics and automation systems.

Despite facing adverse macro-economic conditions in Hong Kong, the performance of the Beauty Business as a whole has met the expectation of the Board. For the year under review, the Beauty Business has contributed a total revenue of HK$50.0 million, of which HK$43.4 million and HK$6.6 million were derived from the provision of therapy services and sale of beauty products, respectively. The Beauty Business has contributed a total gross profit of HK$15.7 million.

In the financial year of 2016, the Group continued to provide deep retail discounts and high volume but low cost wholesales for the sale of beauty products under the brand name "Evidens de Beauté". Furthermore, the Group adhered to the measure of reducing fixed overheads and did not renew the tenancy agreement of the beauty centre at Lyndhurst Terrace upon its expiration on 31 March 2016. Consequently, comparing with the corresponding period in 2015, the Group recorded a turnaround gross profit and the net loss incurred from the operation under the brand name "Evidens de Beauté" has been reduced by 49.2% for the year ended 31 December 2016.

For the beauty business operated at the medical skincare centre has also met the expectation of the management. The revenue derived from the beauty products sold and the provision of therapy services rendered has improved by 106.8% and 8.2% to HK$3.3 million and HK$43.4 million, respectively for the year ended 31 December 2016. Also, the gross profit generated from the medical skincare centre was increased by 14.0% for the year under review.

In January 2016, the Group has obtained the Parts Manufacturers Approval (the "**PMA**") for inflight WLAN equipment. The PMA was granted by the CAAC Central of Southern Regional Administration of Civil Aviation Administration of China ("**CAAC**"). During the year, for Engineering Business, the Group has completed the development of its own software platform and user interface for the use on the WLAN and WIFI system. The Group entered into the cooperation agreement with an airline company in the PRC (the "**Airline**") on 3 December 2015 which was superseded by another cooperation agreement 24 October 2016 (the "**2016 Cooperation Agreement**"), pursuant to which the Group has agreed to provide and install inflight WLAN and WIFI connection equipment in an agreed number of the Airline's aircraft in return for sharing certain income generated from the use of the in-flight WLAN and WIFI connection equipment by passengers with a guaranteed minimum payment to the Airline. During the year under review, the Group has completed the installation of inflight WLAN and WIFI connection equipment on twenty four aircrafts. Unfortunately the 2016 Cooperation Agreement was subsequently terminated in January 2017 due to certain requirements stated in the cooperation agreements were not fulfilled.

In November 2016, the Group has acquired the entire issued shares in Engineering Service Inc. ("**ESI**") (the "**Acquisition**"). The Acquisition will enable the Group to acquire the patents and know-how owned by, and to be developed and owned by, ESI and extend the geographical coverage of its Engineering Business operations. The Engineering Business delivered its first batch of its products in December 2016.

For the year under review the Engineering Business has contributed a total revenue of HK$11.5 million, which entirely attributes to sale of robotic products, to the total turnover of the Group. Total gross loss amounting to HK$62.9 million and a profit of HK$1.7 million has been recognised from inflight WIFI operation and from sale of robotic products, respectively, giving a total gross loss of HK$61.2 million attributable to Engineering Business.

FINANCIAL REVIEW

During the year under review, the Group recorded a turnover of approximately HK$61.5 million (for the financial year ended 31 December 2015: approximately HK$47.0 million), of which approximately HK$6.6 million (for the financial year ended 31 December 2015: approximately HK$5.4 million), HK$43.4 million (for the financial year ended 31 December 2015: approximately HK$40.8 million) and HK$11.5 million (for the financial year ended 31 December 2015: HK$0.8 million) were generated from the sale of beauty products, provision of therapy services and the Engineering Business respectively.

The Beauty Business in aggregate contributed approximately HK$50.0 million to the turnover of the Group, representing approximately 81.3% of the turnover, of which approximately HK$6.6 million and HK$43.4 million were generated from the sale of beauty products and provision of therapy services respectively. The Engineering Business contributed approximately HK$11.5 million to the turnover of the Group, representing approximately 18.7% of the turnover.

For the year ended 31 December 2016, the negative gross margin was approximately 73.9% (for the financial year ended 31 December 2015: negative gross margin of 1.8%). The Beauty Business in aggregate contributed approximately HK$15.7 million gross profit to the Group, while the Engineering Business recorded a gross loss of approximately HK$61.1 million. The decrease in gross margin is mainly due to increase in cost of sales relating to the WIFI Business sector and impairment loss recognised on certain equipment. As announced on 30 December 2016, the Company has received a notice of termination of 2016 Cooperation Agreement with the Airline. The directors have assessed the recoverability of certain equipment purchased for the 2016 Cooperation Agreement and determined that the recoverable amount is less than the carrying value of these equipment and, therefore, an impairment loss was recognised in cost of sales.

During the year under review, other income is approximately HK$0.3 million (for the financial year ended 31 December 2015: approximately HK$0.3 million). For the financial year ended 31 December 2016, there is no significant change in other income.

Other losses amounted to HK$1.4 million is mainly attributable to the loss on disposal of fixed assets of HK$1.0 million and change in fair value of investment in listed securities amounted to HK$0.4 million.

The selling and distribution costs for the year ended 31 December 2016 was approximately HK$12.2 million (for the financial year ended 31 December 2015: approximately HK$6.9 million). The Beauty Business and the Engineering Business accounted for approximately 37.5% or HK$4.6 million and approximately 62.5% or HK$7.6 million of the total selling and distribution costs, respectively. The increase in selling and distribution costs is mainly due to increase in sales commission of beauty business amounting to HK$2.4 million and increase in marketing cost incurred by Engineering Business amounting to HK$2.9 million.

MANAGEMENT DISCUSSION AND ANALYSIS

The administrative expenses for the year ended 31 December 2016 was approximately HK$35.3 million (for the financial year ended 31 December 2015: approximately HK$28.1 million). The administrative expenses of the Beauty Business accounted for approximately HK$10.6 million or 30.0% of the total administrative expenses. Such expenses mainly comprises staff costs of HK$5.1 million, depreciation expenses of HK$2.0 million, rental expense of HK$0.7 million and other administration expenses of HK$2.8 million. The administrative expenses of the Engineering Business accounted for approximately HK$14.0 million or 39.7% of the total administrative expenses. Such expenses mainly comprises staff costs of HK$5.8 million, overseas travelling expenses of HK$1.1 million, staff recruitment expense of HK$0.8 million, depreciation expense of HK$0.3 million, legal and professional expense of HK$0.8 million and other administration expenses of HK$5.2 million. In addition, the Group also incurred administration expense relating to general corporate activities amounting to HK$10.7 million or 30.3% of the total administration expense. The general corporate administration expense mainly consists of legal and professional expenses amounted to HK$6.7 million for the purposes of, among others, share placement and acquisition of subsidiary and audit of the financial statements of the Company, staff salary amounted to HK$1.2 million, directors' remuneration amounted to HK$0.7 million and other listing and administration expense of HK$2.1 million.

An amount of HK$51.1 million is recognised in respect of reversal of impairment loss of other receivable and interest income of HK$46.5 million and HK$4.6 million, respectively, relating to legal proceedings against Mr. Shum. Please refer to the section headed "Litigation" for more details.

The finance costs for the year ended 31 December 2016 of approximately HK$0.2 million (for the financial year ended 31 December 2015: approximately HK$1.0 million) was mainly attributed to interest paid for finance lease.

The consolidated loss amounted to approximately HK$43.7 million for the year ended 31 December 2016 (for the financial year ended 31 December 2015: approximately HK$39.7 million), of which a loss of approximately HK$1.6 million (for the financial year ended 31 December 2015: HK$8.0 million), a loss of HK$82.5 million (for the financial year ended 31 December 2015: 25.0 million) and a profit of HK$40.4 million (for the financial year ended 31 December 2015: a loss of HK$11.9 million) were incurred and generated by the Beauty Business, the Engineering Business and general corporate activities, respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the total borrowings and obligation under finance leases of the Group amounted to approximately HK$2.0 million (as at 31 December 2015: approximately HK$10.6 million). The total borrowings and other financial liabilities are repayable within one year.

As at 31 December 2016, the Group had total assets of approximately HK$318.6 million (31 December 2015: approximately HK$211.5 million), including cash and cash equivalents of approximately HK$152.2 million (31 December 2015: approximately HK$116.1 million).

During the year under review, the Group financed its operation with internally generated cash flows, balance of proceeds derived from the issuance of the subscription shares under the subscription agreement in 2015 (the "Subscription") and proceeds derived from the placing of new shares under general mandate.

CAPITAL STRUCTURE

(a) Placing of new shares under general mandate

On 23 November 2016, the Company entered into the placing agreement (the "**Placing Agreement**") with a placing agent (the "**Placing Agent**") pursuant to which the Company has appointed the Placing Agent, and the Placing Agent has conditionally agreed to procure, on a best effort basis, the placing of up to 35,416,666 placing shares (the "**Placing Shares**") to the placee (the "**Placee**") at the placing price of HK$4.80 (the "**Placing Price**") per Placing Share (the "**Placing**"). The condition set out in the Placing Agreement has been fulfilled on 9 December 2016, and the completion took place on 14 December 2016 in accordance with the terms and conditions of the Placing Agreement. An aggregate of 35,416,666 Placing Shares, representing approximately 7.78% of the total number of shares in issue as enlarged by the issue of the Placing Shares as at the date of the completion i.e. 455,219,666 shares, have been placed to the Placee at the Placing Price. The net proceeds from the Placing are approximately HK$166.2 million.

As at 31 December 2016, the Company's total number of issued ordinary shares and issued convertible preferred shares were 455,219,666 (as at 31 December 2015: 419,803,000) and 30,000,000 (as at 31 December 2015: 30,000,000), respectively.

(b) Borrowings and obligations under finance lease

As at 31 December 2016, the total borrowings and obligations under finance lease of the Group amounted to approximately HK$2.0 million (as at 31 December 2015: approximately HK$10.6 million), representing a borrowing from Koffman Investment Limited, which is unsecured, non-interest bearing and maturing on 30 June 2017.

USE OF NET PROCEEDS FROM ISSUANCE OF ORDINARY SHARES

Net proceeds from the Subscription which was completed on 6 November 2015 was HK$135 million and, as at 31 December 2016, the Company has utilized approximately HK$31.7 million for acquiring in-flight WIFI and connection equipment and approximately HK$76.1 million for the development of Engineering Business. The Company intends to apply the remaining balance of approximately HK$27.2 million for the development of Engineering Business.

Net proceeds from Placing which was completed on 14 December 2016 is approximately HK$166.2 million and, as at 31 December 2016, the Company has utilised approximately HK$46.3 million to settle the shareholder's loan due by ESI. The Company intends to apply the remaining balance of approximately HK$119.9 million as general working capital as announced on 8 December 2016.

GEARING RATIO

The gearing ratio, expressed as percentage of total borrowings to equity attributable to owners of the Company, was approximately 0.8% (31 December 2015: approximately 7.6%). The improvement of gearing ratio was mainly contributed by the (i) increase in the total assets of the Group as a result of the completion of the placing and (ii) repayment of the borrowings during the year under review.

PLEDGE OF ASSETS

As at 31 December 2016, the Group's restricted bank deposits of approximately HK$12.3 million (as at 31 December 2015: approximately HK$12.7 million) were deposits held at banks in respect of credit card and instalment sales arrangement of its sale of beauty products and provision of therapy services business.

FOREIGN EXCHANGE RISK

The Group has not used any foreign currency derivative instruments to hedge its exposure to foreign exchange risk. However, the management monitors closely the exposures and will consider hedging the exposures should the need arise.

COMMITMENTS

As at 31 December 2016, the Group had operating lease commitments and capital commitments of approximately HK$15.2 million (as at 31 December 2015: approximately HK$13.3 million) and Nil (as at 31 December 2015: HK$8.2 million), respectively.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no material contingent liabilities.

EMPLOYEES

As at 31 December 2016, the Group had 155 employees (as at 31 December 2015: 111 employees). Total staff costs for the year ended 31 December 2016 amounted to approximately HK$41.0 million (for the financial year ended 31 December 2015: approximately HK$34.0 million). Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme, the employees in the PRC joined the national statutory social security insurance scheme and the employees in Canada joined the government-mandated retirement plan.

SIGNIFICANT INVESTMENT

The Group did not make any significant investment other than the acquisition of ESI during the year ended 31 December 2016.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND AFFILIATED COMPANIES

The Group did not make any material acquisition or disposal of subsidiaries, associates or affiliated companies during the year ended 31 December 2016, except for the acquisition of ESI in November 2016.

On 23 November 2016, the Company has announced the acquisition of all of the issued shares of ESI for a consideration of HK$ 54,000,000. The acquisition was completed on 25 November 2016.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group does not have any concrete plan for material investments or capital assets for the coming year.

OUTLOOK

The Group has obtained the PMA for inflight WLAN equipment and has completed the development of its own software platform and user interface for the use on the WLAN and WIFI system. However, phones and other electronic devices are prohibited on all flights of China's airlines, which hinders the development of WIFI. On August 8, 2016, the CAAC released a draft of Civil Aviation Law of the People's Republic of China for public opinions, which still prohibits using of phones and other electronic devices on airplanes. Therefore, the Board is optimistic yet prudent about the prospect of in-flight Internet access.

Aside from services of in-flight Internet access, the Group has been actively exploring the engineering services recently by establishing 安兆科技(深圳)有限公司 (Anzon Technologies (Shenzhen) Co., Ltd.) in Shenzhen China to provide products and services in robotics and automation, in an effort to expand and diversify its engineering services as well as to boost its long-term growth potential and shareholder value. Also, in order to improve its competitiveness in robotic engineering services, the Group has acquired a Canadian technology company, ESI, which owns a series of patents concerning hi-tech robot technologies and an engineering team with rich experience, expertise and achievements in this field. The Group will continue to develop its engineering businesses in 2017 to bring robotic and automation products and services into its portfolio; and expand its business territory.

The directors do not expect any significant growth in the Group's Beauty Business in 2017.

LITIGATION

(a) On 23 January 2015, the Company received a writ of summons in relation to the High Court Action No. 200 of 2015 ("**HCA No. 200 of 2015**") issued by Mr. Shum Yeung ("**Mr. Shum**"), as the plaintiff, against the Company, as the defendant, for the following claims, inter alia:

   (i) the judgment in High Court Action No. 1775 of 2012 dated 6 September 2013 (the "**Summary Judgment**"), pursuant to which the Court of First Instance of the High Court of Hong Kong (the "**Court**") adjudged that Mr. Shum (a) shall pay the Company the sum of HK$39,127,500 together with contractual interest thereon calculated from day to day at the rate of 30% per annum from 1 May 2013 to 6 September 2013, and thereafter at judgment rate pursuant to s.48 of High Court Ordinance (Cap.4 of the Laws of Hong Kong) (the "**High Court Ordinance**") until payment (the "**Judgment Debt**"); and (b) shall pay the Company the costs of this action including the costs of and occasioned by the Company's application for the Summary Judgment to be taxed if not agreed, entered against Mr. Shum be set aside;

(ii) loss and damages suffered by Mr. Shum as a result of the Summary Judgment being obtained against him;

(iii) an order for discovery upon oath of all matters relating to the Summary Judgment;

(iv) an order for payment of all sums found due to Mr. Shum together with the interest thereon at such rate and for such period as the Court may deem just pursuant to the High Court Ordinance;

(v) the cost; and

(vi) further or other relief.

On 30 March 2015, the Company received a statement of claim in the Court filed by Mr. Shum in relation to HCA No. 200 of 2015 to claim against the Company mainly for: (i) the Summary Judgment be set aside; (ii) the loss and damages suffered by Mr. Shum as a result of the Summary Judgment against him; (iii) an order for discovery upon oath of all matters relating to the Summary Judgment; (iv) an order for payment of all sums found due to Mr. Shum together with interest thereon; and (v) costs. On 14 May 2015, the Company filed a defence to refute the statement of claim in that action on the basis, among others: that (i) Mr. Shum was bound by the Summary Judgment; and (ii) the Company denied the allegations raised against the Company by Mr. Shum in the statement of claim. After the 23 September 2015 Hearing (as defined below), the Company on 10 December 2015 filed an inter parties summons for an application to strike out the writ of summons and statement of claim filed by Mr. Shum in relation to HCA No. 200 of 2015. A substantive hearing of such application has been fixed to be held on 8 June 2016.

(b) On 19 May 2015, the Board announced that the Company commenced legal proceedings (the "**May Proceedings**") in the Court against Mr. Shum as the 1st Defendant, E In International Group Limited as the 2nd Defendant, E In Properties Limited as the 3rd Defendant and Grand Fill Enterprise Limited as the 4th Defendant ("**HCA No. 1234 of 2015**") for, amongst others, the following reliefs to recover the Judgment Debt under the Summary Judgment:

(i) Mr. Shum's interest in all the shares or shareholdings in the 2nd Defendant, 3rd Defendant and 4th Defendant (the "Shares") which have been charged in favour of the Company be sold without further reference to the Court by way of tender or public auction at the best price reasonably obtainable;

(ii) the solicitors for the Company shall have the conduct of the sale of the Shares by appointing an agent, to sell the Shares by way of tender or public action;

(iii) the execution of the requisite deeds or documents to effect the sale stated in paragraphs (b)(i) and (b)(ii) above by Mr. Shum or by the Registrar of the Court;

(iv) the Company shall apply the sale proceeds from the sale of the Shares to (a) pay the costs and expenses of effecting the above sale; (b) pay the costs of the May Proceedings; (c) pay the Judgment Debt (together with interest) under the Summary Judgment; and (d) pay the balance (if any) to Mr. Shum or into the Court or as the Court shall direct;

(v) further or alternative to paragraphs (b)(i), (b)(ii) and (b)(iii) above, a receiver be appointed to (a) receive Mr. Shum's profits, income, benefits, interest and/or assets deriving and/or arising from the Shares; and/or (b) to take over and/or realize the Shares for the purpose of defraying the Judgment Debt (together with interest) under the Summary Judgment; and

(vi) the costs of the May Proceedings to the Company.

The hearing of the May Proceedings had originally been fixed on 25 June 2015. On 19 June 2015, the Company was served with a summons taken out by Mr. Shum seeking to stay the May Proceedings pending the determination of HCA No. 200 of 2015 (the "**Application for stay of the May Proceedings**"). Upon the consent of the parties, the court ordered that, among others, the May Proceeding and the Application for stay of the May Proceedings be adjourned to be heard together on 23 September 2015.

(c) On 9 June 2015, the Board announced that the Company commenced legal proceedings (the "**June Proceedings**") in the Court against Mr. Shum as the 1st Defendant, Wing Lung Bank Limited as the 2nd Defendant and Hang Seng Bank Limited as the 3rd Defendant for, amongst others, the following reliefs to recover the Judgment Debt under the Summary Judgment:

(i) Mr. Shum's interest in the properties and/or lands situate at (i) House 4, The Baroque, Nos.1-7 Kau To Shan Road, Shatin, New Territories (the "**First Property**"); (ii) Ground Floor, No. 1 Kau To Path, Lot No. 838 in DD171, Shatin, New Territories (the "**Second Property**"); and (iii) Ground Floor, No. 1 Kau To Path, Lot No. 839 in DD171, Shatin, New Territories (the "**Third Property**") (collectively as the "**Properties**") which have been charged in favour of the Company be sold without further reference to the Court by way of tender or public auction at the best price reasonably obtainable;

(ii) the solicitors for the Company shall have the conduct of the sale of the Properties by appointing an agent, to sell the Properties by way of tender or public auction;

(iii) the execution of the requisite deeds or documents to effect the sale stated in paragraphs (c)(i) and (c)(ii) above by Mr. Shum or by the Registrar of the Court;

(iv) the Company shall apply the sale proceeds from the sale of the First Property to (a) pay the costs and expenses of effecting the above sale; (b) pay the costs of the June Proceedings; (c) pay the outstanding indebtedness owed to Hang Seng Bank Limited as secured by a mortgage over the First Property; (d) pay the Judgment Debt (together with interest) owed to the Company under the Summary Judgment; and (e) pay the balance (if any) to Mr. Shum or into the Court or as the Court shall direct;

(v) the Company shall apply the sale proceeds from the sale of the Second Property and Third Property to (a) pay the costs and expenses of effecting the above sale; (b) pay the costs of the June Proceedings; (c) pay the outstanding indebtedness owed to Wing Lung Bank Limited as secured by a mortgage and a second legal charge over the Second Property and the Third Property; (d) pay the Judgment Debt (together with interest) owed to the Company under the Summary Judgment; and (e) pay the balance (if any) to Mr. Shum or into the Court or as the Court shall direct;

(vi) further or alternative to paragraphs (c)(i), (c)(ii) and (c)(iii) above, a receiver be appointed to receive Mr. Shum's share of any rents, income and/or profits arising from the Properties;

(vii) such further and/or other directions as the Court shall deem fit; and

(viii) the costs of the June Proceedings to the Company.

The hearing of the June Proceedings had been fixed on 9 July 2015. On 2 July 2015, the Company was served with a summons taken out by Mr. Shum seeking to stay the June Proceedings pending the determination of HCA No. 200 of 2015 (the "**Application for stay of the June Proceedings**"). At the hearing held on 9 July 2015, the Court ordered that the June Proceedings and the Application for stay of the June Proceedings be adjourned to be heard together on 23 September 2015.

The 23 September 2015 Hearing

During the hearing on 23 September 2015 (the "**23 September 2015 Hearing**"), the Company agreed to withhold the enforcement of the Summary Judgment pending the resolution of HCA No. 200 of 2015 in which a writ of summons was issued by Mr. Shum as the plaintiff against the Company as the defendant for, inter alia, setting aside the Summary Judgment, on the condition that Mr. Shum shall pay the judgment sum together with interest accrued under the Summary Judgment into Court. It was therefore ordered by the Court (the "**23 September 2015 Order**") that, inter alia, unless either:

(i) Mr. Shum was able to provide a guarantee to secure the judgment sum of HK$47.8 million, being the outstanding indebtedness (inclusive of interest) up to 8 June 2015 under the Summary Judgment (the "**Judgment Sum**"), which was agreed by the Company in writing or approved by the Court; or

(ii) alternatively, Mr. Shum paid the Judgment Sum into Court, within a period of 28 days from the date of the 23 September 2015 Order, the order by the Court for the appointment of receivers by way of equitable execution over (a) all the Shares; and (b) all Mr. Shum's interests, benefits and/or rights in the Properties (as defined below) shall take effect.

On 19 October 2015, the Company was served with two summons taken out by Mr. Shum seeking for an extension of 14 days from the original 28 days from the date of the 23 September 2015 Order. At the hearing on 20 October 2015, it was ordered by the Court that the period of 28 days from the date of the 23 September 2015 Order be extended for 14 days to 5 November 2015.

On 2 November 2015, it was ordered by the Court that the draft bank guarantee provided by Mr. Shum for the purpose of securing the Judgment Sum was not approved.

On 5 November 2015, the Company received a notice from Mr. Shum's solicitors that Mr. Shum had paid HK$47,767,709.60 into the Court in compliance with the 23 September 2015 Order. Under the 23 September 2015 Order, upon the payment into the Court by Mr. Shum, the order for the appointment of receivers as mentioned above shall be forthwith discharged.

On 10 December 2015, the Company filed an inter partes summons for an application to strike out the writ of summons and statement of claim filed by Mr. Shum in HCA No. 200 of 2015. A substantive hearing of such application was held on 8 June 2016 (the "**8 June Hearing**"). During the 8 June Hearing, the Court ordered, inter alia, to strike out the writ of summons together with the statement of claim with cost to the Company. The court further ordered that the amount of HK$47,767,709.60, which paid into the Court by Mr. Shum under the 23 September 2015 Order, be paid out to the Company's solicitors (the "**8 June 2016 Order**").

On 16 June 2016, the Company received a notice of appeal filed by Mr. Shum as appellant in the Court of Appeal of the High Court of Hong Kong (the "**Court of Appeal**") (on appeal from High Court Action No. 200 of 2015), pursuant to which Mr. Shum requested, inter alia: (i) to appeal against the 8 June 2016 Order; (ii) the Court of Appeal to order that the 8 June 2016 Order be set aside and that the Company's solicitors pay back the amount of HK$47,767,709.60 into court; and (iii) the Court of Appeal to order that the Company pay Mr. Shum the costs of the appeal (the "**Appeal**"). A substantive hearing of such appeal has been fixed to be held on 10 January 2017.

On 13 December 2016, an order was granted by the Court of Appeal of the High Court of Hong Kong Special Administrative Region that, among others, the appeal taken out by Mr. Shum by way of a notice of appeal filed on 16 June 2016 be dismissed with no order as to costs. The Company received the aggregate amount of the outstanding and unpaid refundable deposit and the accrued interest of HK$51.1 million as a result of the end of the aforesaid legal proceedings against Mr. Shum. As a result, an amount of reversal of impairment loss previously recognised in respect of other receivables and interest receivables of HK$46.5 million and HK$4.6 million in the consolidated statement of profit or loss.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Cai Zhaoyang ("**Mr. Cai**"), aged 40, has been appointed as the chairman of the Company (the "**Chairman**"), the chief executive officer of the Company (the "**Chief Executive Officer**") and an executive Director with effect from 23 November 2015. Mr. Cai holds a Bachelor Degree in Microwave Communications from Xi'an University of Electronic Science and Technology. Mr. Cai has extensive experiences and expertise in the avionic engineering and service business and the telecommunications industries in the PRC. Mr. Cai is the controlling shareholder (as defined in the GEM Listing Rules) and a director of Shenzhen Donica Electronic Technology Co., Ltd. ("**Shenzhen Donica**"). Mr. Cai is also the controlling shareholder (as defined in the GEM Listing Rules) and the sole director of Xing Hang, the controlling shareholder (as defined in the GEM Listing Rules) of the Company. Mr. Cai also serves as a deputy director and a council member of Shenzhen Institute of Avionics Technology（深圳市航電技術研究院）, a non-state owned institute established by Mr. Cai focusing on, among others, (i) technology research in the field of avionics; and (ii) research in the standards for avionics technology.

Mr. Chan Kin Wah, Billy ("**Mr. Chan**"), aged 54, joined the Company as an executive Director on 5 August 2014 and was appointed as the Chairman on 19 January 2015, which he ceased to act with effect from 23 November 2015. He is also a compliance officer of the Company, an authorised representative of the Company and the chairman of the special investigation committee of the Board (the "**Special Investigation Committee**") and a member of both the nomination committee of the Board (the "**Nomination Committee**") and remuneration committee of the Board (the "**Remuneration Committee**"). He has over 25 years of experience in accounting and financial control. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants, a CPA member of CPA Australia and a non-practicing member of the Chinese Institute of Certified Public Accountants. Mr. Chan holds a Bachelor of Administration Degree from the University of Ottawa in Canada and a Master of Commerce Degree in Professional Accounting from the University of New South Wales in Australia. Mr. Chan is an executive director and the company secretary of Eternity Investment Limited (stock code: 764), a company listed on the Main Board of the Stock Exchange since 18 January 2010.

Mr. Lee Chan Wah ("**Mr. Lee**"), aged 48, was firstly appointed as the company secretary of the Company on 13 February 2012 and further appointed as executive Director on 16 August 2012. He resigned as the company secretary on 9 September 2013 and re-appointed as the company secretary on 15 April 2016. He is also an authorised representative of the Company. Mr. Lee has over 20 years of experience in the field of auditing, accounting and finance. He holds a Bachelor of Business Administration degree from the Hong Kong Baptist University. He is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

Dr. Andrew Goldenberg ("**Dr. Goldenberg**"), aged 72, was appointed as an executive director of the Company on 22 December 2016. Dr. Goldenberg has over 40 years of extensive experience and expertise in the engineering of high-tech robotics. Dr. Goldenberg has been a professor in mechanical and industrial engineering specializing in robotics and automation at the University of Toronto since 1982. Dr. Goldenberg is also the founder of Engineering Services Inc. and has been a director of Engineering Services Inc. since its incorporation. Dr. Goldenberg has also been the chief technical officer (the "**CTO**") of Engineering Services Inc. since 2015. With effect from the completion of the acquisition of Engineering Services Inc. by the Company on 25 November 2016, Dr. Goldenberg has become the CTO of the Group. Dr. Goldenberg has been and currently is a professor in the robotics and automation engineering field at various universities and/or institutions. Dr. Goldenberg holds a number of professional qualifications including Life Fellow of the Institute of Electrical and Electronic Engineers, Fellow of the American Society of Mechanical Engineerings, Fellow of the Engineering Institute of Canada, Fellow of the Canadian Academy of Engineering, Fellow of the American Association for the Advancement of Science, Member of the Professional Engineers of Ontario and Designated Consulting Engineer in Ontario.

Mr. Zhang Chongdi, aged 65, was appointed as an executive director of the Company on 22 December 2016. Mr. Zhang Chongdi has over 30 years of experience in industrial production and business administration in the PRC. Mr. Zhang Chongdi holds an undergraduate degree in professional engineering management from the People's Liberation Army Engineering College of the People's Republic of China*（中國人民解放軍工程學院）. Mr. Zhang Chongdi was the general manager of Shenzhen Huahai Mechanical Engineering Co.,Ltd. from 1989 to 1991. From 1992 to 2002, Mr. Zhang Chongdi was the chairman and the general manager of Guangdong Welmetal Steel Co., Ltd.. He then worked as the chairman and the general manager of Guangdong Welmetal Group from 2002 to 2013. Mr. Zhang Chongdi has been the vice chairman of Shenzhen Association of Enterprises with Foreign Investment since 1992 and was a deputy to the Fourth Shenzhen Municipal People's Congress of the PRC from 2005 to 2010.

Mr. Zhang Chong, aged 47, was appointed as an executive director of the Company on 22 December 2016. Mr. Zhang Chong has over 20 years of experience in investment and business administration in the People's Republic of China (the "**PRC**"). Mr. Zhang Chong was the vice general manager of Shenzhen Hengye Investment Group Co., Ltd. from 2003 to August 2016. He is currently a director of Engineering Services Inc., a research and development company incorporated in Canada in 1982. Engineering Services Inc. was acquired by the Company on 25 November 2016 and became an indirect wholly-owned subsidiary of the Company since then. Mr. Zhang Chong holds an executive master of business administration degree from Nankai University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tam B Ray, Billy ("**Mr. Tam**"), aged 48, joined the Company as an independent non-executive Director on 5 March 2012. He is also a member of each of the audit committee of the Board (the "**Audit Committee**"), the Nomination Committee and the Special Investigation Committee. Mr. Tam has been a practicing solicitor in Hong Kong for over 20 years. He holds a Bachelor of Laws degree from the University of London, a Bachelor degree in laws of the People's Republic of China from Tsinghua University and a Master of Laws degree from the University of Hong Kong. Mr. Tam is a partner of Messr. Ho & Tam. He has been an independent non-executive directors of China Fortune Financial Group Limited (stock code: 290), a company listed on the Main Board of the Stock Exchange, from 4 December 2007 to 21 December 2016. He has also been an independent non-executive director of Silk Road Energy Services Group Limited (stock code: 8250), a company listed on GEM, from 10 November 2011 to 18 June 2014. Mr Tam has also been a non-executive director of Larry Jewelry International Company Limited (stock code: 8351), a company listed on GEM of the Stock Exchange, from 16 December 2010 to 19 September 2014 and Milan Station Holdings Limited (stock code: 1150), a company listed on the Main Board of the Stock Exchange, since 28 April 2011.

DIRECTORS' PROFILE

Mr. Chu King Wang, Peleus ("**Mr. Chu**"), aged 52, joined the Company as an independent non-executive Director on 5 March 2012. He is also the chairman of each of the Audit Committee, the Remuneration Committee and the Nomination Committee and a member of the Special Investigation Committee. Mr. Chu has over 25 years of experience in auditing, accounting and financial management for both private and listed corporations. He graduated from the University of Hong Kong with a Master Degree in Business Administration. Mr. Chu is a fellow practising member of the Hong Kong Institute of Certified Public Accountants (FCPA (Practising)) and fellow member of the Association of Chartered Certified Accountants (FCCA). He is also an associate member of both the Institute of Chartered Secretaries and Administrators (ACIS) and the Hong Kong Institute of Chartered Secretaries (ACS). Mr. Chu has been an executive director of Chinese People Holdings Company Limited (stock code: 681), a company listed on the Main Board of the Stock Exchange, since 1 December 2008 and appointed as the deputy chairman with effect from 23 March 2015. He has been appointed as an independent non-executive director of National Agricultural Holdings Limited (stock code: 1236), a company listed on the Main Board of the Stock Exchange for the period from 25 June 2015 to 11 September 2015. Mr. Chu has also has appointed as non-executive director of Perfect Group International Holdings Limited (stock code: 3326), a company listed on the Main Board of the Stock Exchange from 19 August 2015 to 1 March 2017. He has also been an independent non-executive director of each of Tianli Holdings Group, Limited (stock code: 117), Huayu Expressway Group Limited (stock code: 1823), Flyke International Holdings Ltd. (stock code: 1998), China First Capital Group Limited (stock code: 1269), Mingfa Group (International) Company Lmited (stock code: 846) and ITC Corporation Limited (stock code: 372), all of which are listed on the Main Board of the Stock Exchange, since 16 April 2007, 21 May 2009, 24 February 2010, 19 October 2011, 1 November 2016 and 8 March 2017, respectively, and Telecom Service One Holdings Limited (stock code: 8145) and Madison Wine Holdings Limited (stock code: 8057) both companies listed on the GEM Board of the Stock Exchange, since 30 April 2013 and 21 September 2015 respectively.

Mr. Tse Joseph ("**Mr. Tse**"), aged 41, joined the Company as an independent non-executive Director on 16 August 2012. He is also a member of each of the Audit Committee, the Remuneration Committee and the Special Investigation Committee. Mr. Tse has extensive experiences in finance and accounting. He holds a Bachelor of Commerce-Accounting degree from the University of New South Wales and a Master degree in Financial Management from the University of London. Mr. Tse has worked in several banks such as The Bank of East Asia, Limited and The Hongkong and Shanghai Banking Corporation Limited.

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investing holding company. The principal activities of its subsidiaries are set out in note 36 to the consolidated financial statements. The principal activity of the Group is the sale of beauty products and provision of therapy services and the provision of engineering products and related service business. There were no significant changes in the nature of business of the Group during the year under review.

A fair review of business of the Group during the year under review, discussion on the key financial performance indicators of the Group, particulars of important events affecting the Group that have occurred since the end of the period under review and future development of the Group are provided in the section headed "Management Discussion and Analysis" from page 4 to page 13 of this annual report.

Description of the environmental policies and performance, compliance with the applicable laws and regulations which have a significant impact on the Group, relationships with stakeholders and principal risks and uncertainties facing the Group can be found in the paragraphs below.

Environmental Policies and Performance

The Group is committed to creating a successful business that is not achieved at the expense of the environment. The Group is dedicated to creating an environmentally friendly and sustainable operation. The Directors are not expecting that the business of the Group will have a significant impact on the environment due to the nature of its principal business. Details on Group's environmental policies are set out in the section headed "Environmental. Social and Governance Report" from page 40 to page 43 of this annual report.

Compliance with the Applicable Laws and Regulations which have a Significant Impact on the Group

The Company and its subsidiaries operating in Hong Kong, the PRC and Canada are subject to requirements under various laws and regulations. For subsidiaries operating in Hong Kong, applicable laws and regulations include, among others, the Trade Descriptions Ordinance (Cap. 362 of the Laws of Hong Kong), the Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong), the Competition Ordinance (Cap. 619 of the Laws of Hong Kong), the Employment Ordinance (Cap. 57 of the Laws of Hong Kong), and the applicable regulations, guidelines, policies and licence terms issued or promulgated under or in connection with these statutes. In addition, GEM Listing Rules apply to the Company. For subsidiaries operating in the PRC, applicable laws and regulations include, among others, Administrative Measures on Foreign Investments in Commercial Sector(外商投資商業領域管理辦法), Law on Environmental Impact Assessment of the PRC(中華人民共和國環境影響評價法), Administrative Measures on Pollutants Discharge Permits(廣東省排污許可證管理辦法), Law on Wholly Foreign Owned Enterprises of the PRC(中華人民共和國外資企業法), Administrative Regulations on Company Registration of the PRC(中華人民共和國公司登記管理條例), Regulations on Certification of Qualification of Civil Aviation Products and Parts(民用航空產品和零部件合格審定規定) and Regulations on Certification of Qualification of Civil Aircrafts Repair Entities(民用航空器維修單位合格審定規定). For the subsidiary operating in Canada, applicable laws and regulations include, among others, the Canada Business Corporation Act, Patent Act, Industrial Design Act, and Canada Labour Code. The Group seeks to ensure compliance with these requirements through various measures such as internal controls and approval procedures, trainings and oversight of various business units with the designated resources at different levels.

Relationships with Stakeholders

The Group is committed to operating in a sustainable manner while balancing the interests of its various stakeholders including its employees, customers, suppliers, business partners and the community.

DIRECTORS' REPORT

The Group considers its employees key to sustainable business growth. The Group is committed to providing all employees a safe and harassment-free working environment with equal opportunities in relation to employment, reward management, training and career development.

As a customer-focused service provider, the Group considers its customers as one of the most important stakeholders. The Group is committed to serving its customers to the best of its ability and continually elevating the level of service excellence.

The Group is committed to upholding the highest ethical and professional standards when dealing with suppliers. The Group has established suppliers monitoring and screening process and conducted suppliers' performance review regularly. Unsatisfactory rating for rectification or improvements will be communicated to its suppliers.

RISK MANAGEMENT

The risk management process is integrated into our day-to-day activities and is an ongoing process that flows through the Group.

When performing risk identification, the Group takes into account internal and external factors including economic, political, social, technological, environmental and new or updated Group strategy and new regulations, as well as our stakeholders' expectation in these aspects. Each risk identified is analysed on the basis of likelihood and impact consistent with risk parameters set by the Board. Action plans are in place to manage risks. Fundamental to the achievement of our business goal is how the Group can effectively manage existing and emerging risks in economic, social and political environment. A description of the Group's risk factors is shown as below.

Risk factors

Risks and uncertainties can affect the Group's business, financial condition, operation results or growth prospects leading to a divergence from expected or historical result. Key risk factors affecting the Group are outlined below. In dealing with these, the Group remains in touch with stakeholders with the aim of understanding and addressing their concerns.

These factors are no exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could become material in the future.

Macroeconomic Conditions of Global and China

Global economic growth has been weaker than expected with sluggish demand conditions in the major economies. Uncertainty in world economic recovery continued due to economic pressures and geopolitical tensions in various areas of the world, slow growth in emerging markets including mainland China.

The Group's target customers of the Engineering Business comprise companies and government agencies operating in the PRC. Any unexpected economic, political and social events or changes in the PRC may have a significant impact on the Engineering Business.

The Group has taken a proactive approach to monitoring changes in macroeconomics factors of Global and China. To address macroeconomics volatility, the Group's strategy is to pursue diversification of product lines and expansion in different geographic areas.

The Engineering Business may not be able to keep up with technological changes

The engineering industry is moving and customers' preferences change quickly. The introduction of new technology in this industry may render the Group's services to be obsolete and uncompetitive. Accordingly, the Group's future success will depend on its ability to adapt to changing technologies and continually improving the know-how of its staff in response to evolving demands of the market place. Failing to adapt to such changes may result in the Engineering Business losing its customers, which would have a material adverse effect on the financial position of the Group.

The management has been monitoring the latest development in technologies relating to engineering industry. Research and development will be done internally through the Group's own talents or outsourced to qualified third party. When see fit, the Group may also acquire companies with technologies that meet the requirement of business strategy of the Group.

Compliance with the PRC laws and regulations

As set out in the paragraph headed "Compliance with the Applicable Laws and Regulations which have a Significant Impact on the Group" above, the operation of the Engineering Business is subject to compliance with various rules and regulations in the PRC. In order to expand into the production of in-flight WIFI equipment and robotics products in the PRC, the Group must obtain certain required qualifications. The Group may not be able to obtain such qualifications and may therefore be unable to expand into the production of the in-flight WIFI equipment and robotics products.

The Group has taken a proactive approach to monitoring any change in applicable laws and regulation. The compliance is done through a variety of means including engaging external advisors, performing regulator audits and complying regulatory reporting obligations.

Product liability

The products provided by the Group may contain defects or errors. The Group may incur costs in correcting the defects or errors or defending any legal proceedings and claims brought by its customers. Defects or errors that may be contained in the Group's products may also affect the Group's relationship with such customers and result in negative publicity, hence adversely affecting the Group's reputation. The Group does not currently maintain any product liability insurance but may consider doing so in future. There is no assurance that there will not be any product liability claims against the Group for the loss or damage caused by defective products. If any of the Group's customers make any claim against the Group which is in excess of any insurance coverage of the Group or otherwise falls outside such coverage, the Group will need to bear the costs of settling such claims, and may result in the Group's business and financial condition being adversely affected.

To prevent product liability claims, the Group only deals with qualified and reputable raw material suppliers. The management also conducts regular product safety review should confirm that products comply with the latest industry and government safety standards.

Competition

The Group operates in markets and industries where the regulation is drive to open competition has led to increased competition, pricing pressure, loss of market share, and increased promotional, marketing and customer acquisition expenditures.

DIRECTORS' REPORT

The Group has been consistently monitoring its competitors, markets and industries and adjusting this business strategy to adopt the changing market place.

Client complaints, claims and legal proceedings in the course of the Group's operations

Given the nature of the beauty industry and subjective views on the level of satisfaction of beauty services provided and products, on occasions, the Group is susceptible to complaints associated with its products or services. Common client complaints include (i) unsatisfactory results of the Group's services and products; (ii) physical injury caused by the Group's services; (iii) disputes over payment method (e.g. credit card instalment); (iv) unsatisfactory staff services; (v) unsatisfactory treatment progress; (vi) client's change of mind; and (vii) subsequent argument on the terms of contracts.

Customer complaints are handled in a timely manner by trained customer service team of the Group. In case of legal proceedings being file against the Group, the Group will engage or consult qualified professionals to minimize the impact.

RESULTS AND PROFIT DISTRIBUTION

Details of the Group's results for the financial year ended 31 December 2016 are set out in the consolidated statement of comprehensive income on page 49 of this annual report.

The Directors did not recommend the payment of any final dividend for the financial year ended 31 December 2016 (for the financial year ended 31 December 2015: Nil).

FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group for the past five financial years/periods ended 30 June 2013, 30 June 2014, 31 December 2014, 31 December 2015 and 31 December 2016 are set out on page 112 of this annual report. This summary does not form part of the audited consolidated financial statements of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year under review are set out in note 15 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year under review are set out in note 22 to the consolidated financial statements in this annual report.

RESERVES

Details of the movement in the reserves of the Group and the Company during the year under review are set out in the consolidated statement of changes in equity on page 52 and note 30 to the consolidated financial statements, respectively, in this annual report.

DISTRIBUTABLE RESERVE

The Company did not have any reserves available for distribution to the shareholders of the Company as at 31 December 2016 (as at 31 December 2015: Nil).

CHARITABLE DONATIONS

The Group did not make any charitable donations during the financial year ended 31 December 2016 (for the financial year ended 31 December 2015: Nil).

DIRECTORS

The Directors who held office during the year under review and up to the date of this annual report were:

Executive Directors

Mr. Cai Zhaoyang
Mr. Chan Kin Wah, Billy
Mr. Lee Chan Wah
Dr. Andrew Goldenberg *(appointed as an executive Director on 22 December 2016)*
Mr. Zhang Chongdi *(appointed as an executive Director on 22 December 2016)*
Mr. Zhang Chong *(appointed as an executive Director on 22 December 2016)*

Independent non-executive Directors

Mr. Tam B Ray, Billy
Mr. Chu Kin Wang, Peleus
Mr. Tse Joseph

Pursuant to bye-law 84 of the bye-laws of the Company (the "**Bye-laws**"), Mr. Lee Chan Wah and Mr. Tam B Ray, Billy shall retire from office by rotation at the forthcoming annual general meeting (the "**2017 AGM**"), which is scheduled to be held on 8 May 2017, and, being eligible, offer themselves for re-election at the 2017 AGM.

Pursuant to bye-law 83(2) of the Bye-laws, Mr. Zhang Chong, Mr. Zhang Chongdi and Dr. Andrew Goldenberg , who were appointed by the Board as an executive Director with effect from 22 December 2016, shall retire from office at the 2017 AGM and, being eligible, offer themselves for re-election at the 2017 AGM.

THE BIOGRAPHY OF THE DIRECTORS

The biographical details of the Directors of the Company are set out in the section headed "Directors' Profile" on pages 14 to 16 of this annual report.

DIRECTORS' LETTERS OF APPOINTMENT

Except for Dr. Goldenberg, none of the Directors being proposed for re-election at the 2017 AGM has a letter of appointment or a services contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. Dr. Goldenberg has a service contract with a subsidiary of the Company which may be terminated by the appointing subsidiary on the greater of 12 months' notice or the applicable employment legislation in force in Ontario, Canada.

DIRECTORS' REPORT

PERMITTED INDEMNITY

Pursuant to the Bye-laws, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of his duty, or supposed duty, in their respective offices or trusts.

As at the date of this annual report, the Company is still arranging for appropriate liability insurance for the Directors to indemnify their liabilities arising from corporate activities.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received annual written confirmations from each of Mr. Tam B Ray, Billy, Mr. Chu Kin Wang, Peleus and Mr. Tse Joseph, all being the independent non-executive Directors during the year under review, in respect of their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all the independent non-executive Directors are independent in accordance with the guidelines set out in the GEM Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "**SFO**") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long and short positions in the ordinary shares and underlying shares of the Company

Name of director/ chief executive	Nature of interests	*Notes*	Interest in shares *(Note 1)*	Interest in underlying shares of the Company *(Note 1)*	Total interest in shares of the Company *(Note 1)*	Approximate percentage of shareholding *(Notes 1 and 3)*
Mr. Cai Zhaoyang	Interest of controlled corporation	*Notes 2 and 3*	179,925,549(L) 179,921,200(S)		179,925,549(L) 179,921,200(S)	39.52%(L) 39.52%(S)

Notes:

1. "L" represents long position in shares or underlying shares of the Company and "S" represents short position in shares or underlying shares of the Company.

2. Xing Hang Limited ("Xing Hang") is ultimately owned as to 65% by Mr. Cai Zhaoyang, which in turn directly holds long positions in 179,925,549 shares of the Company and short positions in 179,921,200 shares of the Company. Accordingly, Mr. Cai Zhaoyang is deemed to be interested in the long positions in 179,925,549 shares and short positions in 179,921,200 shares of the Company.

3. Pursuant to a term loan agreement (the "**Term Loan Agreement**") entered into between Xing Hang (as borrower) and Success Far Holdings Limited ("**Success Far**") (as lender) on 17 February 2015, a deed of charge and assignment in relation to the 179,921,200 shares of the Company had been executed by Xing Hang (as charger) in favour of Success Far (as chargee), pursuant to which 179,921,200 shares of the Company have been charged by Xing Hang to Success Far as security under the Term Loan Agreement. Accordingly, Xing Hang acquired short positions in respect of such 179,921,200 shares of the Company.

4. The percentage is calculated on the basis of 455,219,666 shares of the Company in issue as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, so far as is known to any Directors or chief executive of the Company, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OF THE COMPANY

Save as disclosed in this annual report, at no time during the year under review was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the Directors (including their respective spouses and children under the age of 18) to acquire benefits by means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations, and none of the Directors or their respective spouses or children under the age of 18 had any right to subscribe for shares of the Company or any of its associated corporations or had exercised any such right during the year under review.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this annual report, no Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which a controlling shareholder of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party at any time during the year under review.

CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries or fellow subsidiaries or a controlling shareholder of the Company was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year under review or at any time during the year under review.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Board on the basis of their job responsibilities, work performance, professional experience and prevailing industry practices.

The emoluments of the Directors are decided by the Board with reference to the recommendations from the Remuneration Committee, with regard to the Company's operation results, individual performance and comparable market statistics.

The Company has adopted the Share Option Scheme (as defined below) as an incentive to Directors and eligible participants. Please refer to the paragraph headed "Share Option Scheme" on pages 26 to 27 of this annual report for details.

Details of the emoluments of Directors and employees and the five highest paid individuals of the Group are set out in note 10 and note 11 to the consolidated financial statements, respectively, in this annual report.

COMPETING INTERESTS OF DIRECTORS

As at 31 December 2016, none of the Directors, substantial shareholders of the Company nor any of their respective associates (as defined under the GEM Listing Rules) had any interest in a business which causes or may cause significant competition with the business of the Group.

SUBSTANTIAL SHAREHOLDER'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, so far as is known to the Directors and the chief executives of the Company, the interests and shorts positions of the persons or corporations (other than the Directors and the chief executive of the Company) in the shares and underlying shares as recorded in the register to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Interests and short positions in the shares or underlying shares of the Company

Name of shareholder	**Nature of interests**	*Notes*	**Interest in shares of the Company** *(Note 1)*	**Interest in underlying shares of the Company** *(Note 1)*	**Total interest in shares of the Company** *(Note 1)*	**Approximate percentage of shareholding** *(Notes 1 and 7)*
Xing Hang	Beneficial owner	*2*	179,925,549(L)	—	179,925,549(L)	39.52%(L)
			179,921,200(S)	—	179,921,200(S)	39.52%(S)
Success Far	Security interest	*2*	179,921,200(L)	—	179,921,200(L)	39.52%(L)
High Aim	Beneficial owner	*3*	26,697,946(L)	30,000,000(L)	56,697,946(L)	12.46%(L)
Ko Chun Shun, Johnson	Interest of controlled corporation	*3*	26,697,946(L)	30,000,000(L)	56,697,946(L)	12.46%(L)
Hong Kong Bridge Investment	Beneficial owner	*4*	41,666,666(L)	—	41,666,666(L)	9.15%(L)
Topsearch International	Interest of controlled corporation	*4*	41,666,666(L)	—	41,666,666(L)	9.15%(L)
New Cove	Beneficial owner	*5*	27,500,000(L)	—	27,500,000(L)	6.04%(L)

Name of shareholder	Nature of interests	*Notes*	Interest in shares of the Company *(Note 1)*	Interest in underlying shares of the Company *(Note 1)*	Total interest in shares of the Company *(Note 1)*	Approximate percentage of shareholding *(Notes 1 and 7)*
Eternity	Interest of controlled corporation	*5*	27,500,000(L)	—	27,500,000(L)	6.04%(L)
Tai Dong	Beneficial owner	*6*	24,979,500(L)	—	24,979,500(L)	5.49%(L)
Su Zhituan	Interest of controlled corporation	*6*	24,979,500(L)	—	24,979,500(L)	5.49%(L)

Notes:

1. "L" represents long position in shares or underlying shares of the Company and "S" represents short position in shares or underlying shares of the Company.

2. Xing Hang is ultimately owned as to 65% by Mr. Cai Zhaoyang. Pursuant to the Term Loan Agreement entered into between Xing Hang (as borrower) and Success Far (as lender) on 17 February 2015, a deed of charge and assignment in relation to the 179,921,200 shares of the Company had been executed by Xing Hang (as charger) in favour of Success Far (as chargee), pursuant to which 179,921,200 shares of the Company have been charged by Xing Hang to Success Far as security under the Term Loan Agreement. Accordingly, Xing Hang acquired short positions in respect of such 179,921,200 shares of the Company.

3. High Aim is wholly-owned by Mr. Ko Chun Shun, Johnson. Accordingly, Mr. Ko Chun Shun, Johnson is deemed to be interested in all the shares of the Company in which High Aim is or is deemed to be interested. Pursuant to the Subscription Agreement, High Aim subscribed for 26,697,946 Ordinary Subscription Shares and 30,000,000 Preferred Shares.

4. Hong Kong Bridge Investment Limited ("**Hong Kong Bridge Investment**") is interested in 41,666,666 shares of the Company. As Hong Kong Bridge Investment is an indirect wholly-owned subsidiary of Topsearch International (Holdings) Limited ("**Topsearch International**"), Topsearch International is deemed to be interested in such 41,666,666 shares.

5. New Cove Limited ("**New Cove**") is interested in 27,500,000 shares of the Company. As New Cove is an indirect wholly-owned subsidiary of Eternity Investment Limited ("**Eternity**"), Eternity is deemed to be interested in such 27,500,000 shares.

6. Tai Dong New Energy Holdings Limited ("**Tai Dong**") is interested in 24,979,500 shares of the Company. As Tai Dong is an ultimately wholly-owned by Mr. Su Zhituan, Mr. Su Zhituan is deemed to be interested in such 24,979,500 shares.

7. The percentage is calculated on the basis of 455,219,666 Shares in issue as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, so far as is known to the Directors and the chief executive of the Company, and based on the public records filed on the website of the Stock Exchange and records kept by the Company, no other persons or corporations (other than the Directors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "**Share Option Scheme**") at the annual general meeting of the Company held on 7 November 2014 (the "**2014 AGM**").

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Company to grant options to certain Eligible Participants (as defined below) as incentives or rewards for their contribution to the Company and/or its subsidiaries.

2. Participants of the Share Option Scheme and the basis of determining the eligibility of the participants

The Board may, subject to and in accordance with the provisions of the Share Option Scheme and the GEM Listing Rules, in its absolute discretion, invite (i) any employees (including, without limitation, executive Directors) of the Company and/or any of its subsidiaries; (ii) any non-executive Directors (including, without limitation, independent non-executive Directors) of the Company and/or any of its subsidiaries; (iii) any consultants, suppliers or customers of the Company and/or any of its subsidiaries; (iv) any employee (whether full-time or part-time and including directors) of any entity in which the Group holds any equity interest; and/or (v) any person who, in the sole discretion of the Board, has contributed or may contribute to the Group eligible for options under the Share Option Scheme (the "**Eligible Participant(s)**") to take up options to subscribe for Shares at the Subscription Price (as defined below).

3. Maximum number of Shares

As approved by the shareholders of the Company at the 2014 AGM, the total number of shares of the Company in respect of which options may be granted under the Share Option Scheme is 7,480,300 shares of the Company which is equivalent to 10% and 1.64% of the issued shares of the Company as at 3 October 2014 and 31 December 2016 respectively.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options to be granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the relevant class of shares of the Company in issue from time to time.

4. Maximum entitlement of each participant

Unless approved by the shareholders of the Company in general meeting and according to the manner prescribed by the provisions of the Share Option Scheme and the GEM Listing Rules, the total number of shares of the Company issued and to be issued upon exercise of the options granted to each Eligible Participant or grantee (including exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue.

5. Offer period and amount payable for options

The offer shall remain open for acceptance for 30 days from the date upon which it is made provided that no such offer shall be open for acceptance after the earlier of the 10th anniversary of the adoption date (i.e. 7 November 2014) (the "**Adoption Date**") or the termination of the Share Option Scheme or the Eligible Participant to whom such offer is made has ceased to be an Eligible Participant.

An option shall be deemed to have been accepted (subject to certain restrictions in the Share Option Scheme) when the duplicate letter comprising acceptance of the option duly signed by the Eligible Participant together with a non-refundable nominal consideration of HK$1.00 is received by the Company from the grantee.

6. **Minimum period for which an option must be held before it can be exercised**

There is no specified minimum period under the Share Option Scheme for which an option must be held or the performance target which must be achieved before an option can be exercised under the terms of the Share Option Scheme.

The terms of the Share Option Scheme provide that in granting options under the Share Option Scheme, the Board may offer to grant any options subject to such terms and conditions in relation to the minimum period of the options to be held and/or the performance criteria to be satisfied before such options can be exercised and/or any other terms as the Board may determine in its absolute discretion.

7. **Basis of determining the exercise price**

The exercise price shall be determined by the Board at its absolute discretion, provided that it shall be not less than the higher of (i) the closing price of the shares of the Company on the Stock Exchange (as stated in the Stock Exchange's daily quotations sheet) on the date on which an offer is made to an Eligible Participant, which must be a business day (the "**Offer Date**"), (ii) the average closing price of the Shares on the Stock Exchange (as stated in the Stock Exchange's daily quotations sheets) for the five business days immediately preceding the Offer Date, and (iii) the nominal value of the Shares.

8. **Remaining life of the Share Option Scheme**

The Share Option Scheme shall continue in force for the period commencing from the Adoption Date and expiring at the close of business on the 10th anniversary thereof, after which period no further options will be issued but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

As at 31 December 2016, no options have been granted under the Share Option Scheme. A total of 7,480,000 share options have been granted to employees of the Group on 3 January 2017.

RETIREMENT BENEFIT SCHEMES

Particulars of the retirement benefit schemes of the Group are set out in note 33 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate sales attributable to the Group's largest customer accounted for approximately 19% of the Group's total sales for the year and the five largest customer taken together accounted for approximately 20.7% of the Group's total sales. The Group does not have any significant transaction with any single customer for the financial year ended 31 December 2015.

During the year under review, the aggregate purchases attributable to the Group's largest suppliers accounted for approximately 14% (for financial year ended 31 December 2015: 45%) of the Group's total purchase for the year and the five largest suppliers taken together accounted for approximately 74% (for the financial year ended 31 December 2015: 73%) of the Group's total purchase.

Save as disclosed in this annual report and to the best knowledge of Directors, none of the Directors, their associates, or any shareholders of the Company (which to the best knowledge of the Directors own more than 5% of the Company's issued share capital) has any interest in any of the Group's five largest suppliers or customers during the financial year ended 31 December 2016.

CONNECTED TRANSACTIONS

There is no significant related party transactions entered by the Group during the year ended 31 December 2016.

Significant related party transactions entered into by the Group during the year ended 31 December 2015 are disclosed in note 35 to the consolidated financial statements. Transactions constituted non-exempt continuing connected transactions under the GEM Listing Rules are identified below:

Master Supply Agreement (the "Master Supply Agreement")

Upon the completion of the Subscription on 6 November 2015, the Company and Shenzhen Donica entered into the Master Supply Agreement, pursuant to which the Company may purchase certain in-flight WLAN and WIFI equipment (the "**In-flight Equipment**") and certain installation and related services (the "**Related Services**") for the In-flight Equipment to be provided by independent qualified engineering companies from Shenzhen Donica and Shenzhen Donica shall exclusively supply the In-flight Equipment and engage independent qualified engineering companies to provide the Related Services to the Company from time to time during the term of the Master Supply Agreement to be used by customers of the Group.

At the time when the Master Supply Agreement was entered into, Xing Hang was the controlling shareholder (as defined under the GEM Listing Rules) of the Company and Xing Hang was in turn held by Mr. Cai Zhaoyang as to 82.50%. As Mr. Cai Zhaoyang also held approximately 41.98% equity interest in Shenzhen Donica, Shenzhen Donica was an associate of Xing Hang and therefore a connected person of the Company. The transactions under the Master Supply Agreement constituted continuing transactions for the Company under Chapter 20 of the GEM Listing Rules.

The term of the Master Supply Agreement will last until and up to 31 December 2016. Upon expiry, the term of the Master Supply Agreement can be extended for one year (the "**1st Extended Period**") in the Company's absolute discretion. Upon expiry of the 1st Extended Period, the term of the Master Supply Agreement can be further extended for one more year at the Company's absolute discretion. If the Company chooses to extend the term of the Master Supply Agreement, it needs to serve at least one month's notice in writing to Shenzhen Donica and will comply with the relevant requirements of the GEM Listing Rules as and when appropriate.

As at 31 December 2016 and up to the date of this annual report, the Master Supply Agreement has not been extended.

DISCLOSURE PURSUANT TO RULES 17.23 AND 17.24 OF THE GEM LISTING RULES

Pursuant to the Term Loan Agreement entered into between Xing Hang (as borrower) and Success Far (as lender) on 17 February 2015, a deed of charge and assignment in relation to the 179,921,200 shares of the Company had been executed by Xing Hang (as charger) in favour of Success Far (as chargee), pursuant to which 179,921,200 shares of the Company have been charged by Xing Hang to Success Far as security under the Term Loan Agreement for the term loan facility up to HK$71,968,480. Please refer to the Company's circular dated 7 October 2015 and the Company's announcement dated 15 April 2015 in relation to, among other things, the Subscription, for details.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

MANAGEMENT CONTRACTS

During the year under review, other than the letters of appointment of the Directors, no management and administrative contracts regarding the entire or any major businesses of the Company have been entered into or have existed.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws and there is no restriction against such rights under the law of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

CLOSURE OF THE REGISTER OF MEMBERS

The 2017 AGM is scheduled to be held on 8 May 2017. For determining the entitlement to attend and vote at the 2017 AGM, the register of members of the Company will be closed from 28 April 2017 to 8 May 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2017 AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 27 April 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available and to the best knowledge, information and belief of the Directors, the Company has maintained a sufficient public float as required under the GEM Listing Rules throughout the year ended 31 December 2016.

EVENTS AFTER THE REPORTING PERIOD

(1) On 3 January 2017, subject to the acceptance of the grantees, 7,480,000 share options to subscribe for the shares were granted to the employees of the Company under the share option scheme of the Company.

(2) On 30 December 2016, the Company has announced the receipt of termination notice from the Airline. Since then, the Group has been communicating with the Airline for possible solution acceptable to both parties. Nevertheless no alternative solution is agreed. On 23 January 2017, the Company has announced that the 2016 Cooperation Agreement will be terminated.

(3) On 28 February 2017, the Company has announced that the Company and Blu Spa (Hong Kong) Limited ("BSHK") as plaintiffs filed a statement of claim with the Court of First Instance of the High Court of Hong Kong against the former auditors of both the Company and BSHK for contractual and negligence claims in conducting the audits on the financial statements of each of the plaintiffs for the years ended 30 June 2008, 2009 and 2010.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 31 to 39 of this annual report.

CHANGE OF COMPANY SECRETARY

On 15 April 2016, Ms. Wang Jing resigned and Mr. Lee Chan Wah was appointed as the company secretary of the Company.

AUDITOR

The Company has appointed PricewaterhouseCoopers as the auditor of the Company for the reporting period. A resolution will be proposed for approval by shareholders at the 2017 AGM to re-appoint PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board

Cai Zhaoyang
Executive Director, Chairman and Chief Executive Officer

Hong Kong, 8 March 2017

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Stock Exchange issued the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules which sets out the principles and the code provisions which listed issuers are expected to apply and comply.

During the period under review and up to the date of this annual report, the Company has applied the principles as set out in the CG Code that are considered to be relevant to the Company and has complied with most of the applicable code provisions as set out in the CG Code save for certain deviations, details of which are explained in the relevant paragraphs of this corporate governance report.

The key corporate governance principles and practices of the Company are summarised as follows:

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own codes of conduct regarding Directors' and relevant employees' securities transactions, namely "Code for Securities Transactions by Directors" and "Code for Securities Transactions by Relevant Employees", both of which apply to all Directors and relevant employees of the Company in terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

Having made specific enquiry with each of the Directors, all Directors have confirmed that they have complied with such code and the required standard of dealings on Directors' securities transactions during the year ended 31 December 2016.

BOARD OF DIRECTORS

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic decisions and performances and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibilities for decisions making in all major matters of the Company include approving and monitoring of all policy matters, the setting of objectives, annual budgets and overall strategies, material transactions, appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the senior management. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior management and the Board has the full support of them to discharge its responsibilities. In addition, the Board has also delegated various responsibilities to the Board committees. Further details of these committees are set out in this corporate governance report.

Composition

As at the date of this annual report, the Board comprises six Directors and their respective roles are set out as follows:

Executive Directors

Mr. Cai Zhaoyang (Chairman and Chief Executive Officer)
Mr. Chan Kin Wah, Billy
Mr. Lee Chan Wah
Dr. Andrew Goldenberg *(appointed as an executive Director on 22 December 2016)*
Mr. Zhang Chongdi *(appointed as an executive Director on 22 December 2016)*
Mr. Zhang Chong *(appointed as an executive Director on 22 December 2016)*

Independent Non-executive Directors

Mr. Tam B Ray, Billy
Mr. Chu Kin Wang, Peleus
Mr. Tse Joseph

Two of the independent non-executive Directors have appropriate professional qualifications, or accounting or related financial management expertise.

None of the Board members have financial, business, family or other material/relevant relationship with each other.

Biographical details of the Directors are set out in the section headed "Directors' Profile" on pages 14 to 16 of this annual report.

The Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. All the Directors have given sufficient time and attention to the Company's affairs. Code provision A.5.6 of the CG Code stipulates that there should be a policy concerning the diversity of Board members. With a view to achieving a sustainable and balanced development, the Company has been seeing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Though without a formally written policy, the Company will consider board diversity from a number of factors when deciding on new appointments to the Board and the continuation of those appointments in order to achieve a diversity of perspectives among Board members. These factors include but not limited to gender, age, cultural and educational background, professional or industry experience, skills, knowledge and other qualities of Directors. The Board as a whole is responsible for reviewing the structure, size and composition of the Board with due regard to the intended benefits of board diversity. The balance between the number of Executive and Non-Executive Directors is considered effective in ensuring independent judgment being exercised effectively to provide sufficient checks and balances to safeguard the interests of the Company and its shareholders. The Company believes that the current Board composition is well-balanced and of a diverse mix appropriate for the business of the Company. The Board will review and monitor the implementation of board diversity on a regular basis to ensure its effectiveness on determining the optimal composition of the Board.

Pursuant to code provision A.1.8 of the CG Code, the Company should arrange appropriate insurance to cover potential legal actions against its Directors. As at the date of this annual report, the Company is still arranging for appropriate liability insurance for the Directors for indemnifying their liabilities arising from corporate activities.

APPOINTMENTS, RE-ELECTION AND REMOVAL

The Board has established the Nomination Committee on 27 March 2012 with details set out in the paragraph headed "Nomination Committee" on page 35 of this annual report.

According to the Bye-laws, the Board may from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation in general meeting, as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Board Meetings

The Board regularly meets in person or through other electronic means of communication at least four times every year to determine overall strategic direction and objectives and approve quarterly, interim and annual results, and other significant matters. All Directors are given an opportunity to attend and include matters in the agenda for discussion. During the period under review, at least 14 days' notice were given to all Directors for a regular board meeting in order to comply with the relevant code provision of the CG Code.

Apart from regular meetings, our senior management from time to time provides Directors with information on activities and development of the businesses of the Group. The company secretary of the Company (the "Company Secretary") takes detailed minutes of the meetings and keeps records of matters discussed and decisions resolved at the meetings. Individual attendance records of each Director at the respective Board and committee meetings are set out in the following section.

DIRECTORS' ATTENDANCE RECORD AT MEETINGS

Details of the attendance of the Directors at the meetings of the Board and its respective committees during the year ended 31 December 2016 are as follows:

Name of Director	Board Meeting Attended/ Eligible to attend	Audit Committee Meeting Attended/ Eligible to attend	Remuneration Committee Meeting Attended/ Eligible to attend	Nomination Committee Meeting Attended/ Eligible to attend	Special Investigation Committee Meeting Attended/ Eligible to attend	Annual General Meeting Attended/ Eligible to Attend
Executive Directors						
Mr. Cai Zhaoyang	11/11	—	—	—	—	1/1
Mr. Chan Kin Wah, Billy	11/11	—	1/1	1/1	—	1/1
Mr. Lee Chan Wah	11/11	—	—	—	—	1/1
Dr. Andrew Goldenberg	—	—	—	—	—	—
Mr. Zhang Chongdi	—	—	—	—	—	—
Mr. Zhang Chong	—	—	—	—	—	—
Independent non-executive Directors						
Mr. Tam B Bay, Billy	11/11	4/4	—	1/1	—	1/1
Mr. Chu Kin Wang, Peleus	11/11	4/4	1/1	1/1	—	1/1
Mr. Tse Joseph	11/11	4/4	1/1	—	—	1/1

Directors' Training

Up to the date of this annual report, all Directors have participated in continuous professional development by attending training courses on the topics related to corporate governance and regulations to comply with the relevant code provision. For those Directors who did not attend a structured course, the Company has arranged the Company Secretary to provide in-house training to such Directors and maintained a record of training.

A summary of the training received by the Directors for the period under review according to the records provided by the Directors is as follows:

Name of Directors	Type of Continuous Professional Development Reading on corporate governance, regulatory updates development and other relevant topics	Attending relevant training sessions
Executive Directors		
Mr. Cai Zhaoyang	✓	✗
Mr. Chan Kin Wah, Billy	✓	✓
Mr. Lee Chan Wah	✓	✓
Dr. Andrew Goldenberg	✓	✗
Mr. Zhang Chongdi	✓	✗
Mr. Zhang Chong	✓	✗
Independent non-executive Directors		
Mr. Tam B Bay, Billy	✓	✓
Mr. Chu Kin Wang, Peleus	✓	✓
Mr. Tse Joseph	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Due to practical necessity of the Group's corporate operating structure, the roles of the Chairman and the Chief Executive Officer are both performed by Mr. Cai Zhaoyang, who is overseeing the operation and management of the Group. The Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company.

The Company is looking for a suitable candidate to act as the Chief Executive Officer in order to comply with the CG Code.

NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTOR

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Currently there is no service contract entered into between the Company and all the independent non-executive Directors. Their appointment will be subject to retirement by rotation and re-election in accordance with the Bye-laws and the CG Code.

The Company has received annual written confirmations from Mr. Tam B Ray, Billy, Mr. Chu Kin Wang, Peleus and Mr. Tse Joseph, all being the independent non-executive Directors during the period under review, in respect of their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all the independent non-executive Directors to be independent.

BOARD COMMITTEE

Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with the GEM Listing Rules. The principal responsibilities of the Remuneration Committee include making recommendation to the Board on the Group's policies and structure for all remuneration of Directors and senior management, determining specific remuneration packages of all executive Directors and senior management, and reviewing and approving performance-based remuneration.

As at 31 December 2016 and up to date of this annual report, the Remuneration Committee comprises two independent non-executive Directors, namely Mr. Chu Kin Wang Peleus (chairman) and Mr. Tse Joseph and one executive Director, Mr. Chan Kin Wah Billy.

The Remuneration Committee held one meeting during the year ended 31 December 2016.

Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with the GEM Listing Rules. The principal responsibilities of the Nomination Committee include reviewing the structure, size and composition of the Board, identification of individuals suitably qualified to become Board members and making recommendations to the Board on the selection of individuals nominated for directorships, assessing the independence of independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

As at 31 December 2016 and up to date of this annual report, the Nomination Committee comprises two independent non-executive Directors, namely Mr. Chu Kin Wang Peleus (chairman) and Mr. Tam B Ray, Billy and one executive Directors, Mr. Chan Kin Wah, Billy.

The Nomination Committee held one meeting during the year ended 31 December 2016.

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with the GEM Listing Rules. The principal responsibilities of the Audit Committee include reviewing the financial statements and reports and considering any significant or unusual items raised by the compliance officer or external auditors before submission to the Board, reviewing the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and making recommendation to the Board on the appointment, re-appointment and removal of external auditors and reviewing the adequacy and effectiveness of the Company's financial reporting, internal control and risk management systems and associated procedures.

As at 31 December 2016 and up to the date of this annual report, the Audit Committee comprises three independent non-executive Directors, namely Mr. Chu Kin Wang, Peleus (chairman), Mr. Tam B Ray, Billy and Mr. Tse Joseph.

The Audit Committee held four meetings during the year ended 31 December 2016, to review the financial results and reports, financial reporting and compliance procedures, report on the Company's internal control and risk management review and processes, as well as the re-appointment of the external auditors. During each meeting, the Audit Committee has met with the external auditors without the presence of executive Directors to discuss financial reporting issues.

The Audit Committee has reviewed the consolidated financial statements for the financial year ended 31 December 2016 and provided advices and comments thereon.

The minutes of meetings have been kept by the secretary of meetings (who should normally be the Company Secretary). The draft and final versions of minutes have been sent to all committee members for their comment and records within a reasonable time after each meeting.

Special Investigation Committee

The Company has established the Special Investigation Committee, whose principal responsibilities include (i) investigating the issues raised by HLM & Co., former auditors of the Group, in their resignation letter; (ii) reviewing the internal control procedures and corporate governance policies of the Group; and (iii) making recommendation to the Board on appropriate actions to be taken.

As at 31 December 2016 and up to the date of this annual report, the Special Investigation Committee comprises one executive Director, namely Mr. Chan Kin Wah, Billy (chairman) and three independent non-executive Directors, namely Mr. Tam B Ray, Billy, Mr. Chu Kin Wang, Peleus and Mr. Tse Joseph.

The Special Investigation Committee did not hold any meeting during the year ended 31 December 2016.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and the senior management, the Company's policies and practices compliance with the legal and regulatory requirements, the compliance of the "Code for Securities Transactions by Directors" and "Code for Securities Transactions by Relevant Employees", and the Company's compliance with the CG Code and disclosure in this corporate governance report.

ATTENDANCE OF GENERAL MEETING

Pursuant to code provision E.1.2 of the CG Code, the Chairman should attend the annual general meeting of the Company and he should invite the chairmen of the Audit Committee, the Remuneration Committee, the Nomination Committee and any other committees (as appropriate) to attend. Pursuant to code provision A.6.7 of the CG Code, independent non-executive Director and other non-executive Directors should attend the general meetings of the Company. During the year ended 31 December 2016, the annual general meeting of the Company was held on 13 May 2016 (the "2016 AGM") and all the then Directors had attended the 2016 AGM.

AUDITORS' REMUNERATION

During the year under review, the remuneration in respect of audit services and non-audit services provided by the Company's external auditor, PricewaterhouseCoopers, is set out below:

Services rendered	Fee paid/payable *HK$'000*
Audit services	1,200
Non-audit services	580

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial period and to ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publication of the financial statements. The Directors, having made appropriate enquiries, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the risk management and internal control of the Group. To facilitate the effectiveness and efficient operations and to ensure compliance with relevant laws and regulations, the Group emphasizes the importance of a sound risk management and internal control systems which is also indispensable for mitigating the Group's risk exposures. The risk management and internal control systems are reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The Board is satisfied that, based on information furnished to it and on its own observations, the present risk management and internal control of the Group are satisfactory. The Group has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's performance by the Audit Committee and the Board. The Board has conducted review of the effectiveness of the system of internal control and is of the view that the risk management and internal control systems adopted for the year ended 31 December 2016 is sound and are effective to safeguard the interests of the shareholders' investment and the Company's assets.

As required under code provision C.2.5 of the CG code, the Company has established an internal audit function. A senior executive has been appointed in charge of the internal audit function and reports directly to the Audit Committee. The senior executive is provided with unrestricted access to all information of on Group's assets, records and personnel in the course of internal audit. The senior executive has attended the Audit Committee meetings and reported findings to members of the Audit Committee. All Directors are informed of the findings of internal audit assignments carried out during the year.

COMPANY SECRETARY

The Company Secretary is responsible for advising the Board through the Chairman on governance matters and also facilitates induction and professional development of the Directors. The Company Secretary reports to the Chairman. All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures, all applicable law, rules and regulations are followed. On 15 April 2016, Ms. Wang Jing, who was a full time employee of the Company, resigned as the Company Secretary and following her resignation, Mr. Lee Chan Wah, who is also an executive Director of the Company, has been appointed by the Board as the Company Secretary on the same day. According to Rule 5.15 of the GEM Listing Rules, Mr. Lee Chan Wah has confirmed that he has taken no less than 15 hours of relevant professional training to update his skills and knowledge during the period under review. He will continue to comply with the GEM Listing Rules and take no less than 15 hours of relevant professional training in each financial year.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Annual report, interim report and quarterly reports offer comprehensive information to the shareholders of the Company on operational and financial performance whereas annual general meetings provide a forum for the shareholders of the Company to exchange views directly with the Board. All of the then Directors and all members of the Audit Committee attended the 2016 AGM to answer questions raised at the meeting. Each general meeting, other than an annual general meeting, shall be called a special general meeting (the "SGM").

Right to convene SGM

According to the Bye-laws, any one or more shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meeting of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a SGM to be called by the Board for the transaction of any business specified in such requisition. The requisition must be lodged with the Company's principal place of business in Hong Kong.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request has been verified is not in order, the shareholders will be advised of this outcome and accordingly, a SGM will not be convened as requested. If within twenty-one (21) days from the date of the deposit of the proper and orderly requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionist(s) concerned at the SGM varies according to the nature of the proposal, as follows:

— At least 14 clear days' notice in writing (and not less than 10 business days) if the proposal constitutes an ordinary resolution of the Company in SGM;

— At least 21 clear days' notice in writing (and not less than 10 business days) if the proposal constitutes a special resolution of the Company in SGM.

Right to put forward enquiries to the Board

Shareholders of the Company may at any time send their enquiries and concerns to the Board in writing to the Company Secretary at the Company's head office in Hong Kong at Unit 3811, 38/F., Shun Tak Centre, West Tower, 168–200 Connaught Road Central, Central, Hong Kong.

Right to put forward proposals at general meetings

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Bermuda Companies Law. As regards proposing a person for election as a Director, please refer to the procedures as set out in (i) the Bye-laws available on the websites of the Company and the Stock Exchange and (ii) the guidelines entitled "Procedures for shareholders to propose a person for election as a Director" on the website of the Company.

INVESTOR RELATIONS

The Company considers that effective communication with shareholders of the Company is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with the shareholders of the Company and in particular, through annual general meetings and other general meetings. The website of the Company is http://www.skynetgroup.com.hk.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About This Report

We are delighted to present the Environmental, Social and Governance ("ESG") Report of SkyNet Group Limited (the "Company") together with its subsidiaries (collectively the "Group"). The Group's main operations include sale of beauty products, provision of therapy services and provision of engineering products and related services.

The report summarises the ESG performance of the Group from the period between 1 January 2016 and 31 December 2016. The report is compiled in accordance with the ESG Guide under Appendix 20 to the GEM Listing Rules issued by the Stock Exchange of Hong Kong Limited in 2015.

We believe that sustainable business growth is of high priority to both the Group and its stakeholders. We are committed to providing quality and responsible products and services to the community whilst minimising the environmental and social impacts from our operations.

We engaged our stakeholders on an ongoing basis and seek to collect their views and expectations on our ESG performance and disclosures. In response to the interests and concerns of our stakeholders, the report summarises our key ESG activities performed during the year. The following sections of the report cover environmental protection, employment and labour practices, operating practices and community investment.

Environmental Protection

The Group endeavours to create sustained business growth that is not achieved at the expense of our environment. We achieve this mainly through proper waste management, energy efficiency enhancement and greenhouse gas (GHG) emissions reduction.

The operation of our medical skincare centre generates medical waste such as syringes and needles, the disposal of which is regulated in Hong Kong. We strictly adhere to the regulatory requirements and have step-by-step procedures to guide employees in handling clinical waste prior to disposal by certified third party contractors.

To reduce paper consumption, we have automated most of our business processes and went with electronic documentation to minimise paper use. Marketing information is issued through electronic channels such as e-mail, smart phone applications and social media platforms to our customers.

The Group puts great emphasis on energy conservation and GHG emission reduction at our premises. We encourage the use of energy efficient lighting systems and have revamped our medical skincare centre in Hong Kong and offices in the PRC and Canada with more energy efficient LED lamps. Our employees are reminded to turn off idle electric appliances to avoid energy wastage. We have also implemented a self-monitoring system to ensure that lights are turned off when our medical skincare centre and offices are closed. Additionally, to support a "greener" business, our employees are encouraged to avoid unnecessary business travels to reduce GHG emissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employment and Labour Practice

Employment

Our people are the key to the success of our business and we adopt a people-centric human capital management. To attract talents and motivate them, the Group is committed to providing a rewarding career and maintaining a safe, equal and inclusive working environment free from any kind of discrimination. Our human resources policies and handbook have clear guidelines on covering compensation and dismissal, recruitment and promotion, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.

Our employees are assessed and incentivised based on their performance. The Group reviews the remuneration package annually to maintain competitive in the market. In addition to standard compensation packages and bonuses, we offer a range of other benefits including footwear allowance, free beauty treatments, staff discount and meal allowance.

To enhance the sense of belonging of our employees and promote corporate culture, we organised a series of team-building events such as lucky draw, cooking class and buffet gathering.

Health and Safety

Occupational health and safety (OHS) and wellbeing of our employees are our key priorities. We adopt proper procedures at the workplace to ensure employees have sufficient training and support.

Sharp materials such as needles are used when we provide our medical skincare services which can pose health and safety risks. Hence we provide our employees with induction and refresher training on safety procedures. In addition, we have put up reminders at the workplace highlighting standards operating procedures and emergency response in the event of accidental injury.

Fire drills and safety seminars are conducted every year to prepare our employees for potential fire emergencies.

We encourage and support employees to maintain a balance between work and life. Employees are provided with a break of at least 15 minutes between each beauty therapy session and sufficient time for lunch break, with an aim to help them better concentrate at work and minimise health and safety risks due to fatigue.

Development and Training

We believe that continuous development and training of our people is the key to sustaining our high service quality and competitiveness in the market. We engage with our employees from time to time to understand their development needs and encourage them to learn new skills and knowledge for professional and personal development.

Our business requires a high level of skills and expertise. To equip our frontline staff with the right skillset and knowledge, we provide one-month full-time training covering medical theories, practical skills and customer service, coached by experienced employees and registered doctors. The trainees are required to pass a compulsory stringent examination to qualify as a beauty therapist before providing service to the customer.

To keep the entire workforce updated with the latest trends and technology development in the engineering industry, we arrange monthly meetings for staff to share knowledge on the technology, applications and global development. Our CTO also conducts regular in-house seminar to our engineers and technical staff.

Labour Standards

Use of child or forced labour in our operations is strictly prohibited. We expect our suppliers to adhere to the same standard of labour practices.

Operating Practices

Supply Chain Management

The Group interacts with a number of suppliers and avoids use of a single source for skincare products and equipment to minimise supply chain risks. We are committed to upholding high ethical and professional standards when dealing with suppliers. A process for supplier monitoring and screening has been established and implemented. Supplier performance including quality and safety is assessed regularly; in the event of unsatisfactory performance, the supplier will be required to take timely follow-up actions. Suppliers who fail to comply with our standards can be suspended from doing business with us.

Product Responsibility

The quality of our products and services are the foundation to the long-term sustainability of our business. The Group aspires to deliver high-standard beauty solutions, and engineering products and related services to our customers through quality products, professional services and impeccable customer services.

We have stringent criteria on product ingredients, certification and the place of origin when procuring beauty products. Products that are free of fragrance and preservative are given priority. Products will be tested by our experienced staff to prior to being applied to customers. We have stronger preferences on skincare treatment machines that are being certified by reputable authorities such as the US Food and Drug Administration.

Our medical skincare centre adheres to its “3S” core values when delivering beauty therapy services to the customers, namely “strive for excellent and sustainable development” through excellent service, “self-esteem” through professional expertise and “sincere” through understanding the needs of customers.

Labelling and advertising of our products and services are in line with the applicable regulations to ensure that the information conveyed is complete and accurate.

Customer complaints including post-treatment allergic reactions are documented in writing upon receipt. Our customer service staff are well trained and capable in handling customer complaints in a timely and efficient manner. Compensations are decided and provided to customers based on our established procedures for confirmed cases.

The Group is committed to protecting customer privacy and has established and implemented respective policies and procedures. All employees are required to sign the confidentiality and non-disclosure agreement and abide by the requirements. Employees are also required to handle information related to invention, copyrights and intellectual property rights properly.

Our engineering products and service are complied with highest industrial standards and have obtained all relevant approvals and certifications.

Anti-corruption

The Group attaches great importance to business integrity and uphold high standards of business ethics. We have zero tolerance of any form of corruption, bribery, fraud and money laundering and have specified relevant requirements to all employees in the employee handbook. Employees are provided with channels to raise concerns and report any suspected misconduct in a confidential manner.

Community Investment

The Group strives to contribute to the community with its resources and expertise. We have been supporting the local public sector in their community projects by offering charitable donations. We have set up plans to increase our community outreach and contribution in the coming years.

Regulatory Compliance

During the reporting period, 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 labour practices and operating practices.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of SkyNet Group Limited
(incorporated in the Cayman Islands and continued in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of SkyNet Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 49 to 111, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- 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.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of goodwill arising from the acquisition of China Honest Enterprises Limited ("China Honest"); and

- Revenue recognition from sales of prepaid treatment services.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill arising from the acquisition of China Honest Refer to notes 2.5, 4(c) and 16 to the consolidated financial statements As at 31 December 2016, goodwill of the Group in relation to the acquisition of China Honest amounted to HK$18,266,000. As described in the Accounting Policies in note 2.5 to the consolidated financial statements, the Group is required to, at least annually, test goodwill for impairment. The assessment process involves significant judgement as it is to determine the value-in-use of the cash generating unit relating to China Honest based on assumptions used in the cash flow forecast that may be affected by unexpected future market or economic conditions, in particular to revenue growth rate and the applied discount rate. The Group concluded that there is sufficient headroom as a result of the assessment with no impairment loss being recorded by management. We focused on the risk that the balance of the goodwill may be overstated and that an impairment loss may be required.	Our procedures in relation to management's impairment assessment of goodwill included: - We assessed the objectivity, independence and expertise of the external valuer used by management. - We used our in-house experts to assist us in evaluating the appropriateness of the value-in-use calculations methodology adopted by management and the external valuer. - We discussed with management about and evaluated the underlying key assumptions used in the cash flow forecasts (including revenue growth rate and discount rate used), taking into account market developments. - We compared the Company's forecast for the current year made as of 31 December 2015 to the actual results of the current year to assess the quality of management's forecasting process. - We reconciled the cash flow forecasts to management's approved budgets and assessed the reasonableness of these budgets by comparing historical information and business plan. - We benchmarked the revenue growth rate adopted by the Group to the revenue growth rates adopted by other market players. - We evaluated and discussed discount rate used in the calculations by comparing with the industry or market data. - We tested the mathematical accuracy of the underlying value-in-use calculations. - We further evaluated the sensitivity analysis performed by management around the key assumptions applied to ascertain the extent of change in those assumptions that either individually or collectively would be required for the goodwill to be impaired. Based on available evidence, we found the key assumptions applied by management in relation to assessment on impairment of goodwill to be supportable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition from sales of prepaid treatment services	
Refer to Notes 2.21, 4(d), 5 and 27 to the consolidated financial statements During the year ended 31 December 2016, revenue from treatment services contracts amounting to HK$43,409,000, and HK$4,534,000 of which was related to recognition of revenue from expired treatment contracts. At 31 December 2016, the Group had deferred revenue of HK$26,143,000. As described in the Accounting Policies in note 2.21 to the consolidated financial statements, revenue from service income is recognised when services are provided. Payments that are related to services not yet rendered are shown as deferred revenue in the consolidated statement of financial position. The Group recognises revenue in consolidated statement of comprehensive income for prepaid service contracts expired in accordance with the contractual service periods stipulated in the respective sales contracts, which last for 3 months to 2 years from the date of the relevant contract. Nevertheless, the Group may, depending on facts and circumstances for each case, accommodate certain amount of redemption after expiry of the contractual service period. Accordingly, at each reporting date, the Group assesses the level of expired revenue to be deferred based on past experience for the level of subsequent redemptions. Therefore, the recognition of revenue upon expiry of prepaid treatment contracts involves significant judgement as management is required to assess whether the performance obligations for service contracts are discharged.	Our procedures in relation to management's assessment of revenue recognition upon expiry of prepaid treatment contracts include the following procedures: - We obtained an understanding and evaluated the appropriateness of the basis management used in the assessment (including the applied rate of redemption after expiry) for the level of expired revenue to be deferred. - We compared the applied rate of subsequent redemption used in the assessment to the historical records on redemption after expiry. - We tested the data accuracy of the historical redemption records used by management, on a sample basis, by checking whether these prepaid treatment contracts were redeemed subsequently to the expiry. Based on available evidence, we found the assessment made by management in relation to the revenue recognition upon expiry of prepaid treatment contracts to be supportable.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of 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 scepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Benson Wai Bong Wong.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016	2015
		HK$'000	*HK$'000*
Revenue	5	**61,521**	46,989
Cost of sales		**(106,994)**	(47,834)
Gross loss		**(45,473)**	(845)
Other income	6	**307**	252
Other losses, net	7	**(1,441)**	(136)
Selling and distribution expenses		**(12,217)**	(6,890)
Administrative expenses		**(35,251)**	(30,092)
Reversal of impairment loss previously recognised and interest income in respect of other receivables	19	**51,132**	—
Operating loss	8	**(42,943)**	(37,711)
Finance costs	9	**(198)**	(981)
Loss before income tax		**(43,141)**	(38,692)
Income tax expense	12	**(607)**	(985)
Loss for the year		**(43,748)**	(39,677)
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation of foreign operations		**(534)**	181
Total other comprehensive (loss)/income for the year		**(534)**	181
Total comprehensive loss for the year		**(44,282)**	(39,496)
(Loss)/profit attributable to:			
Owners of the Company		**(44,946)**	(42,086)
Non-controlling interests		**1,198**	2,409
		(43,748)	(39,677)
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(45,480)**	(41,905)
Non-controlling interests		**1,198**	2,409
		(44,282)	(39,496)
Loss per share to the owners of the Company for the year			
Basic and diluted (expressed in HK cent per share)	13	**(10.66)**	(33.19)

The notes on pages 54 to 111 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	**2016**	2015
		HK$'000	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*15*	**7,026**	25,801
Intangible assets	*16*	**127,166**	18,266
Deposits	*19*	**1,479**	—
		135,671	44,067
Current assets			
Inventories	*17*	**2,645**	2,954
Tax recoverable		**260**	—
Trade receivables	*18*	**4,312**	5,734
Deposits, prepayments and other receivables	*19*	**4,147**	30,078
Financial assets at fair value through profit or loss	*20*	**7,052**	—
Restricted bank deposits	*21*	**12,338**	12,657
Cash and cash equivalents	*21*	**152,218**	116,055
		182,972	167,478
Total assets		**318,643**	211,545
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital — Ordinary shares	*22*	**45,522**	41,980
Share capital — Preferred shares	*22*	**3,000**	3,000
Reserves		**211,525**	94,372
		260,047	139,352
Non-controlling interests		**308**	825
Total equity		**260,355**	140,177

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016	2015
		HK$'000	*HK$'000*
LIABILITIES			
Current liabilities			
Amount due to a related company	23	**—**	16,286
Trade payables	24	**965**	179
Accruals and other payables	25	**20,389**	17,093
Other borrowings	26	**1,960**	6,271
Tax payables		**277**	2,487
Deferred revenue	27	**26,143**	24,712
Obligations under finance leases	28	**2**	4,338
		49,736	71,366
Non-current liabilities			
Obligations under finance leases	28	**—**	2
Deferred taxation	29	**8,552**	—
		8,552	2
Total liabilities		**58,288**	71,368
Total equity and liabilities		**318,643**	211,545
Net current assets		**133,236**	96,112
Net assets		**260,355**	140,177

The consolidated financial statements were approved and authorised for issued by the Board of Directors on 8 March 2017 and are signed on its behalf.

Cai Zhaoyang
Director

Lee Chan Wah
Director

The notes on pages 54 to 111 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital-ordinary shares HK$'000	Share capital-preferred shares HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2015	7,480	—	97,922	27,141	11	(87,255)	45,299	3,757	49,056
Loss for the year	—	—	—	—	—	(42,086)	(42,086)	2,409	(39,677)
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	—	—	—	—	181	—	181	—	181
Total comprehensive loss for the year	—	—	—	—	181	(42,086)	(41,905)	2,409	(39,496)
Subscription of shares	34,500	3,000	112,500	—	—	—	150,000	—	150,000
Share issuing expenses	—	—	(14,042)	—	—	—	(14,042)	—	(14,042)
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	(5,341)	(5,341)
At 31 December 2015 and at 1 January 2016	41,980	3,000	196,380	27,141	192	(129,341)	139,352	825	140,177
Loss for the year	—	—	—	—	—	(44,946)	(44,946)	1,198	(43,748)
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations	—	—	—	—	(534)	—	(534)	—	(534)
Total comprehensive loss for the year	—	—	—	—	(534)	(44,946)	(45,480)	1,198	(44,282)
Placement of new shares	3,542	—	164,758	—	—	—	168,300	—	168,300
Share issuing expenses	—	—	(2,125)	—	—	—	(2,125)	—	(2,125)
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	(1,715)	(1,715)
At 31 December 2016	45,522	3,000	359,013	27,141	(342)	(174,287)	260,047	308	260,355

Notes:

(a) Contributed surplus

With effect from 22 April 2014, the Company had been deregistered in the Cayman Islands and duly continued in Bermuda as an exempted company under the laws of Bermuda (the "Change in Domicile"). Contributed surplus represents the amount transferred from share premium for the purpose of setting off against the accumulated losses pursuant to the Companies Act 1981 of Bermuda and the special resolution passed at the extraordinary general meeting held on 28 February 2013 as a result of the Change in Domicile and related capital reorganisation..

The notes on pages 54 to 111 are an integral part of these consolidated financial statements.

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	34	(33,315)	(44,338)
Tax paid		(3,216)	(630)
Net cash used in operating activities		(36,531)	(44,968)
INVESTING ACTIVITIES			
Interest received		94	229
Proceeds from restricted bank deposits		319	7,044
Proceeds from disposal of property, plant and equipment	34(b)	37	360
Purchases of property, plant and equipment		(23,269)	(3,388)
Purchases of financial assets at fair value through profit or loss		(7,495)	—
Acquisition of a subsidiary, net of cash	31	(51,111)	—
Net cash (used in)/generated from investing activities		(81,425)	4,245
FINANCING ACTIVITIES			
Proceeds from issue of new shares		—	150,000
Proceeds from placement of new shares		168,300	—
Share issuing expenses		(2,125)	(14,042)
Proceeds from other borrowings		4,940	14,602
Proceeds from a related company		—	3,540
Repayment to a related company		(3,495)	—
Repayment of obligation under finance leases		(3,905)	(444)
Repayment of other borrowings		(6,816)	(12,181)
Repayment of promissory notes		—	(6,420)
Dividend paid to non-controlling interests		(1,715)	(5,341)
Net cash generated from financing activities		155,184	129,714
Net increase in cash and cash equivalents		37,228	88,991
Cash and cash equivalents at the beginning of the year		116,055	26,553
Effect of foreign exchange rate changes		(1,065)	511
Cash and cash equivalents at the end of the year	21	152,218	116,055

The notes on pages 54 to 111 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

SkyNet Group Limited (the "Company") and its subsidiaries (together "the Group") are principally engaged in the sale of beauty products, provision of therapy services, and provision of engineering products and related services.

The Company is a limited liability company incorporated in the Cayman Islands and with effect from 22 April 2014, the Company deregistered in the Cayman Islands and continued in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated.

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 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. 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.

(a) New and amended standards adopted by the Group:

During the year, the Group has adopted the following new standards, amendments and interpretations to standards, which are mandatory for accounting period beginning on 1 January 2016.

HKAS 1 (Amendments)	Disclosure initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer plants
HKAS 27 (Amendments)	Equity method in separate financial statements
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment entities: applying the consolidation exception
HKFRS 11 (Amendments)	Accounting for acquisitions of interest in joint operation
HKFRS 14	Regulatory deferral accounts
HKFRS (Amendments)	Annual improvements to HKFRSs 2012 — 2014 cycle

The adoption of these new and amended standards did not result in a significant impact to the Group's financial position and results.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(b) New standards, amendments to standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017 and have not been applied in preparing these consolidated financial statements.

		Effective for annual periods beginning on or after
HKAS 7 (Amendment)	Disclosure initiative	1 January 2017
HKAS 12 (Amendment)	Recognition of deferred tax assets for unrealised losses	1 January 2017
HKFRS 2 (Amendment)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019

HKFRS 9 Financial Instruments

HKFRS 9, "Financial Instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The Group assess that adopting HKFRS 9 will not have a material impact to the Group's results of operations and financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(b) ***New standards, amendments to standards and interpretations not yet adopted*** *(continued)*

HKFRS 16 Lease

The Group is a lessee of certain office and beauty centre which are currently classified as operating leases. The Group's current accounting policy for such leases, as set out in note 2.22, is to record the rental expenses in the Group's consolidated statement of comprehensive income for the current year with the related operating lease commitments being separately disclosed in note 32. HKFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognise leases outside of the consolidated statement of financial position. Instead, all non-current leases must be recognised in the form of assets (for the right of use) and financial liabilities (for the payment obligations) in the Group's consolidated statement of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from such reporting obligation. The new standard will therefore result in a decognition of prepaid operating leases, increase in right-of-use assets and increase in lease liabilities in the statement of financial position. In the consolidated statements of comprehensive income, as a result, the annual rental and amortisation expenses of prepaid operating lease under otherwise identical circumstances will decrease, while depreciation of right of use of assets and interest expense arising from the financial liabilities will increase. The new standard is not expected to apply until the financial year beginning on or after 1 January 2019.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related Interpretations on revenue recognition. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) identify the contract(s) with customer; (2) identify spate performance obligations in a contract; (3) determine the transaction price; (4) allocate transaction price to performance obligations; and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an "earnings processes" to an "asset-liability" approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost, license agreements and principal versus agent commissions. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. HKFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group does not plan to early adopt HKFRS 15.

Given a new business combination was completed near the year end, the management is currently assessing the impact and it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors do not anticipate that the application of other new and revised HKFRSs will have material impact.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(a) Business combinations

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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is 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 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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 identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

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 subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's 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 Hong Kong dollars, which is the Company's functional and the Group's presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation *(continued)*

(b) Transactions and balances

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

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

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

(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 date of that statement of financial position;

(ii) income and expenses for each statement of comprehensive income presented are translated at average exchange rates (unless this average rate 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. Currency translation differences arising are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation *(continued)*

(d) Disposal of foreign operation and partial disposal

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 currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to consolidated statement of comprehensive income.

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 currency translation 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 exchange difference is reclassified to consolidated statement of comprehensive income.

2.5 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents 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 the 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 value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Intangible assets *(continued)*

(b) Other intangible assets

Intangible assets acquired in business combination are identified and recognised separately from goodwill where they satisfy the definition of intangible assets and their fair values can be measured reliably. Such intangible assets are recognised at their fair values at the acquisition date. The other intangible assets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the costs over their estimated useful lives of 5 years.

2.6 Property, plant and equipment

Property, plant and equipment is stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

Plant and machinery	20%
Leasehold improvement	20%-33%
Furniture, fixtures and equipment	20%-33%
WIFI and connection equipment	33%

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' in the consolidated statement of comprehensive income.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation and are tested at least annually for impairment. Assets 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 (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Financial assets

2.8.1 Classification

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

(a) 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 maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Loans and receivables are classified as trade and other receivables and cash and cash equivalents in the statements of financial position.

(b) 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 12 months; otherwise, they are classified as non-current.

2.8.2 Recognition and measurement

Regular way purchases and sales of investments are recognised on the date of trade — the date on which the Group commits to purchase or sell the asset. Investments 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 statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

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

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 statement of profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of profit or loss as part of other income when the Group’s right to receive payments is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally 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.

2.10 Impairment of financial assets

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 group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 statement of comprehensive income. 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 statement of comprehensive income.

2.11 Inventories

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

When inventories are sold, the carrying amounts of those inventories is recognised as cost of sales in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as cost of sales in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is offset against the cost of sales in the period in which the reversal occurs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.12 Trade and other receivables

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

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

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with banks.

2.14 Trade and other payables

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

Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 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 profit or loss in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss, 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.

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, 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.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Current and deferred income tax *(continued)*

(c) Offsetting

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

2.18 Share capital

Ordinary shares are classified as equity.

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

2.19 Employee benefits

Pension obligations

The Group operates a number of defined contribution plans in Hong Kong, the Mainland China and Canada. The schemes are generally funded through payments to insurance companies or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. 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. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.20 Provisions

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

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 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognises when it is probable that future economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from sales of beauty products and engineering products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the beauty products, beauty equipment and engineering products are delivered to customers. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Revenue from therapy services is recognised when the services are provided or the performance obligations for the services are lapsed. Payments that are related to services not yet rendered or services for which performance obligation not yet discharged are shown as deferred revenue in the consolidated statement of financial position.

Revenue from engineering services is recognised when the services are provided.

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

2.22 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.23 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest-rate risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in Hong Kong, Mainland China and Canada with transactions settled in Hong Kong dollars ("HK$"), Renminbi ("RMB"), Canadian dollars ("CAD") and US dollars ("USD"). The Group is mainly exposed to foreign exchange risk arising from future commercial transactions, recognised assets and liabilities denominated in currencies other than the functional currency of the group entities to which they relate.

As the recognised assets and liabilities of the Group entities,that have been denominated in currencies other than the functional currency are minimal, management believes that the exchange rate risk for translations of recognised assets and liabilities from functional currency and presentational currency do not have material impact to the Group.

(ii) Price risk

The Group's listed securities are susceptible to market price risk arising from uncertainties about future prices of those financial assets at fair value through profit or loss. Management manages this exposure by maintaining a portfolio of investments with different risk profiles. Management considered that the exposure of listed securities to price risk is not significant.

(iii) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets and liabilities except for certain bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group generally does not use financial derivatives to hedge its exposure to interest rate risk.

Management does not anticipate significant impact resulted from the changes in interest rates on interest-bearing assets and bank borrowings.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk

The Group's credit risk is primarily attributable to trade receivables and cash and bank balances. At 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and the financial guarantees issued by the Group arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the executive directors of the Company are responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivables and debt investment at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the executive directors of the Company consider that the Group's credit risk is significantly reduced.

The Group deposited its cash and bank balances with approved and reputable banks. Bankruptcy or insolvency of the banks may cause the Group's right with respect to cash and cash equivalents held to be delayed or limited. Management of the Company monitors the credit rating of these banks on an ongoing basis, and considers that the Group's exposure to credit risk as at 31 December 2016 and 31 December 2015 were minimal.

The Group does not have any other significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis.

(c) Liquidity risk

Ultimate responsibility for liquidity risk rests with the Board, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate level of cash and cash equivalent and by continuously monitoring forecast and matching the maturity profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) *Liquidity risk* *(continued)*

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total un-discounted cash flows	Total carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2016					
Trade payables	**965**	**—**	**—**	**965**	**965**
Accruals and other payables	**16,571**	**—**	**—**	**16,571**	**16,571**
Other borrowings	**1,960**	**—**	**—**	**1,960**	**1,960**
Obligations under finance leases	**2**	**—**	**—**	**2**	**2**
	19,498	**—**	**—**	**19,498**	**19,498**

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total un-discounted cash flows	Total carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2015					
Amount due to a related company	16,286	—	—	16,286	16,286
Trade payables	179	—	—	179	179
Accruals and other payables	11,223	—	—	11,223	11,223
Other borrowings	6,490	—	—	6,490	6,271
Obligations under finance leases	4,390	2	—	4,392	4,340
	38,568	2	—	38,570	38,299

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management

The primary objective of the Group's capital management is to safeguard that the entities in the Group will be able to continue as a going concern and maintain healthy ratios in order to support its business and enhance shareholder's value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue of new shares and repurchase of shares as well as obtain borrowings from banks or other third parties. The Group's capital management objective, policies or processes were unchanged from prior year.

The Group is not subject to any external imposed capital requirements.

The Group monitors capital using gearing ratio, which is the Group's total borrowings over equity attributable to owners of the Company. The gearing ratios at 31 December 2016 and 31 December 2015 were as follows:

	2016	2015
	HK$'000	*HK$'000*
Total borrowings *(Note a)*	**1,962**	10,611
Less: cash and cash equivalents	**(152,218)**	(116,055)
Net cash	**(150,256)**	(105,444)
Equity attributable to owners of the Company	**260,047**	139,352
Gearing ratio	**0.8%**	7.6%

Note:

(a) Borrowings include other borrowings and obligations under finance leases.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation

According to HKFRS 13, financial instruments measured in the statement of financial position at fair value are required to disclose the fair value measurements by level of the following fair value measurement hierarchy:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 — 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 3 — Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2016				
Assets				
Financial assets at fair value through profit or loss				
— Listed securities	7,052	—	—	7,052
	7,052	—	—	7,052

The fair value of financial instruments traded in active markets (such as publicly traded available-for-sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the Group is the current bid price.

There were no transfers among levels 1, 2 and 3 during the year ended 31 December 2016.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing financial statements 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 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 year are discussed below.

(a) Impairment of non-financial assets

Non-financial assets including property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgements and estimates.

Management judgement is required in asset impairment review 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 value of an asset is less than 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) whether appropriate key assumptions are applied in preparing cash flow projections including using an appropriate discount rate. Changing the assumptions selected by management in the impairment assessment, 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 position and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to charge an impairment loss to the consolidated statement of comprehensive income.

(b) Business combination

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Group makes judgements and estimates in relation to the fair value allocation of the purchase price. If any unallocated portion is positive it is recognised as goodwill and if negative, it is recognised in the consolidated statement of comprehensive income.

(c) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.5. The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 16).

(d) Revenue recognition from sales of prepaid treatment services

Revenue from sales of prepaid treatment services is recognised when the services are provided or the performance obligations for the treatment services are lapsed upon the expiry of the treatment contracts, in accordance with the accounting policy stated in note 2.21. Whether the performance obligations are lapsed are varied from case to case and depend on the facts and circumstances for each case. Management judgment is required to assess whether the performance obligations are lapsed at the end of each reporting period based on past experiences and redemption history.

5 SEGMENT INFORMATION

The Group's operating segments have been determined based on the information reported to and reviewed by the executive directors, being the Group's chief operating decision-maker, which are used for the purposes of assessing performance and making strategic decisions. The Group's operating segments are structured and managed separately according to the nature of their operations, and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other operating segments. The Group currently has three operating segments:

(a) Sale of beauty products

(b) Provision of therapy services

(c) Provision of engineering products and related services (Note)

Note:

For the engineering products, the Group offers WLAN and WIFI systems, and robotic products. For the provision of engineering related services, the Group provides equipment installation, support and maintenance services for WLAN and WIFI systems as well as robotics and automation systems.

An analysis of the Group's revenue, results, assets, liabilities and other selected financial information by operating segments are as follows:

For the year ended 31 December 2016

	Sale of beauty products	Provision of therapy services	Provision of engineering products and related services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
Segment revenue	6,630	43,409	11,482	61,521
Results				
Segment (loss)/profit	(1,620)	10,474	(69,204)	(60,350)
Reversal of impairment loss previously recognised and interest income in respect of other receivables *(Note 19)*				51,132
Interest income on bank deposits *(Note 6)*				90
Unallocated corporate income				217
Unallocated corporate expenses				(33,589)
Financial assets at fair value through profit or loss — fair value losses *(Note 7)*				(443)
Finance costs *(Note 9)*				(198)
Loss before income tax				(43,141)
Income tax expense *(Note 12)*				(607)
Loss for the year				(43,748)

5 SEGMENT INFORMATION *(continued)*

At 31 December 2016

	Sale of beauty products	Provision of therapy services	Provision of engineering products and related services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities				
Assets				
Segment assets for operating segments	2,499	26,628	120,434	149,561
Unallocated corporate assets				169,082
Consolidated total assets				318,643
Liabilities				
Segment liabilities for operating segments	23	27,000	22,071	49,094
Unallocated corporate liabilities				9,194
Consolidated total liabilities				58,288

For the year ended 31 December 2016

	Sale of beauty products	Provision of therapy services	Provision of engineering products and related services	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information					
Amount included in the measure of segment (loss)/ profit and segment assets					
Additions to property, plant and equipment	—	2,175	13,538	1,279	16,992
Additions to other intangible assets	—	—	33,407	—	33,407
Amortisation of other intangible assets	—	—	684	—	684
Depreciation of property, plant and equipment	—	1,505	8,552	1,782	11,839

5 SEGMENT INFORMATION *(continued)*

For the year ended 31 December 2015

	Sale of beauty products *HK$'000*	Provision of therapy services *HK$'000*	Provision of engineering products and related services *HK$'000*	Consolidated *HK$'000*
Revenue				
Segment revenue	5,460	40,768	761	46,989
Results				
Segment (loss)/profit	(2,463)	11,478	(18,896)	(9,881)
Interest income on bank deposits *(Note 6)*				249
Unallocated corporate income				3
Unallocated corporate expenses				(28,082)
Imputed interest on promissory notes *(Note 9)*				(351)
Finance costs				(630)
Loss before income tax				(38,692)
Income tax expense *(Note 12)*				(985)
Loss for the year				(39,677)

5 SEGMENT INFORMATION *(continued)*

At 31 December 2015

	Sale of beauty products HK$'000	Provision of therapy services HK$'000	Provision of engineering products and related services HK$'000	Consolidated HK$'000
Assets and liabilities				
Assets				
Segment assets for operating segments	3,473	26,611	129,911	159,995
Unallocated corporate assets				51,550
Consolidated total assets				211,545
Liabilities				
Segment liabilities for operating segments	31	25,442	26,279	51,752
Unallocated corporate liabilities				19,616
Consolidated total liabilities				71,368

For the year ended 31 December 2015

	Sale of beauty products HK$'000	Provision of therapy services HK$'000	Provision of engineering products and related services HK$'000	Unallocated HK$'000	Consolidated HK$'000
Other segment information					
Amount included in the measure of segment (loss)/profit and segment assets					
Additions to property, plant and equipment	—	1,370	18,507	586	20,463
Depreciation of property, plant and equipment	—	1,671	82	2,729	4,482

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2015: Nil).

Segments results represent (loss incurred)/profit earned by each segment without allocating central administration items including directors' emoluments, other income, partial other losses, finance costs and income tax expense. This is the measure reported to the chief operating decision-makers for the purposes of resource allocation and assessment of segment performance.

5 SEGMENT INFORMATION *(continued)*

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

— all assets are allocated to operating segments other than partial property, plant and equipment, partial deposits, prepayment and other receivables, financial assets at fair value through profit or loss, restricted bank deposits and cash and cash equivalents that are not attributable to individual segments. Assets used jointly by individual segments are allocated on the basis of the revenues earned by individual segments; and

— all liabilities are allocated to operating segments other than partial accruals and other payables, tax payables, other borrowings and partial obligations under finance leases that are not attributable to individual segments.

Entity-wide information

Breakdown of the revenue from all services is as follows:

	2016	2015
Analysis of revenue by category	***HK$'000***	*HK$'000*
Sales of beauty products	**6,630**	5,460
Provision of therapy services	**43,409**	40,768
Provision of engineering products and related services	**11,482**	761
	61,521	46,989

Geographical information

The Group mainly operates in Hong Kong, Mainland China and Canada. The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**50,039**	46,228	**25,673**	26,344
Mainland China	**11,482**	761	**960**	17,723
Canada	**—**	—	**109,038**	—
	61,521	46,989	**135,671**	44,067

Information about major customers

Revenue from one customer from "Provision of engineering products and related services" operating segment, individually contributing over 10% of the total revenue of the Group is HK$11,482,000 (2015: nil).

6 OTHER INCOME

	2016 HK$'000	2015 HK$'000
Management income	**199**	—
Interest income on bank deposits	**90**	249
Sundry income	**18**	3
	307	252

7 OTHER LOSSES, NET

	2016 HK$'000	2015 HK$'000
Loss on disposal of property, plant and equipment	**998**	136
Financial assets at fair value through profit or loss		
— fair value loss	**443**	—
	1,441	136

8 OPERATING LOSS

Operating loss has been arrived at after charging:

	2016 HK$'000	2015 HK$'000
Auditor's remuneration		
— audit services	**1,200**	613
— non-audit services	**580**	—
Depreciation of property, plant and equipment *(Note 15)*	**11,839**	4,482
Amortisation of other intangible assets *(Note 16)*	**684**	—
Impairment loss recognised in respect of trade receivables *(Note 18)*	**738**	—
Impairment loss recognised in respect of deposits, prepayments and other receivables *(Note 19)*	**5,717**	—
Impairment loss recognised in respect of property, plant and equipment *(Note 15)*	**16,792**	—
Operating lease rentals in respect of rental premises	**6,863**	7,492
Staff costs (including directors' emoluments) *(Note 10)*	**40,952**	33,975
Write-off of property, plant and equipment	**74**	2,003
Write-off of inventories	**104**	—
Provision for impairment of inventories	**36**	7

9 FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Imputed interest on promissory notes	—	351
Interest on finance leases	149	61
Interest on other borrowings	49	569
	198	981

10 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2016 HK$'000	2015 HK$'000
Salaries and other allowances	37,218	30,668
Pension costs — defined contribution plans *(Note 33)*	3,734	3,307
	40,952	33,975

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year did not include any directors (2015: same). The emoluments payable to the five individuals during the year are as follows:

	2016 HK$'000	2015 HK$'000
Salaries and other allowances	6,958	6,694
Pension costs — defined contribution plans	162	151
	7,120	6,845

The emoluments of the afore-mentioned individuals fell within the following bands:

	Number of individuals	
	2016	2015
Emolument bands (in HK dollar)		
Nil — HK$1,000,000	4	4
HK$1,000,001 — 2,000,000	—	—
HK$2,000,001 — 4,000,000	1	1
	5	5

11 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Pension costs HK$'000	Total HK$'000
For the year ended 31 December 2016					
Executive Directors					
Mr. Cai Zhaoyang *(Note (iii))*	—	350	—	51	401
Mr. Chan Kin Wah, Billy	100	—	—	—	100
Mr. Lee Chan Wah	120	—	—	—	120
Mr. Zhang Chong *(Note (v))*	—	—	—	—	—
Mr. Zhang Chongdi *(Note (v))*	—	—	—	—	—
Dr. Andrew Goldenberg *(Note (v))*	—	196	—	—	196
Independent Non-Executive Directors					
Mr. Chu Kin Wang, Peleus	120	—	—	—	120
Mr. Tam B Ray, Billy	120	—	—	—	120
Mr. Tse Joseph	120	—	—	—	120
For the year ended 31 December 2015					
Executive Directors					
Mr. Cai Zhaoyang *(Note (iii))*	—	43	—	8	51
Mr. Chan Kin Wah, Billy	120	—	—	—	120
Mr. Lee Chan Wah	1,110	—	—	17	1,127
Mr. Wang Shangzhong *(Note (iv))*	10	—	—	—	10
Independent Non-Executive Directors					
Mr. Chu Kin Wang, Peleus	120	—	—	—	120
Mr. Tam B Ray, Billy	120	—	—	—	120
Mr. Tse Joseph	120	—	—	—	120

Notes:

(i) Emoluments paid or payable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking.

(ii) No remuneration has been paid by the Group to the Directors as an inducement to join upon joining the Group, or as compensation for loss of office during the current and prior years. There was no arrangement under which a Director waived or agreed to waive any remuneration during the current and prior years.

(iii) Appointed on 23 November 2015

(iv) Resigned on 19 January 2015

(v) Appointed on 22 December 2016

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2015: Nil).

11 BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

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

During the year, the Company did not pay consideration to any third parties for making available directors' services (2015: Nil).

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

There are no loans, quasi-loans and other dealing arrangements in favour of the directors, or controlled bodies corporate by and connected entities with such directors (2015: Nil).

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

Since November 2015, 深圳多尼卡互聯技術有限公司 (Donica Connectivity Technology Co. Ltd.*) ("Donica Connectivity"), a wholly owned subsidiary of the Company, and Shenzhen Donica Electronic Technology Co., Ltd. ("Shenzhen Donica") entered into the master supply agreement ("Master Supply Agreement"), pursuant to which the Company may purchase certain in-flight WLAN and WIFI equipment (the "In-flight Equipment") and certain installation and related services (the "Related Services") for the Inflight Equipment to be provided by independent qualified engineering companies from Shenzhen Donica and Shenzhen Donica shall exclusively supply the In-flight Equipment and engage independent qualified engineering companies to provide the Related Services to Donica Connectivity from time to time during the term of the Master Supply Agreement to be used by customers of the Group.

At the time when the Master Supply Agreement was entered into, Xing Hang Limited was the controlling shareholder of the Company and Xing Hang Limited was in turn held by Mr. Cai Zhaoyang as to 82.50%. As Mr. Cai Zhaoyang also held approximately 41.98% equity interest in Shenzhen Donica, Shenzhen Donica was an associate of Xing Hang Limited and therefore a connected person of the Company. The transactions under the Master Supply Agreement constituted continuing transactions for the Company under Chapter 20 of the GEM Listing Rules.

The term of the Master Supply Agreement was last until and up to 31 December 2016. Upon expiry, the term of the Master Supply Agreement can be extended for one year (the "1st Extended Period") in the Company's absolute discretion.

For the In-flight Equipment supplied by Shenzhen Donica and the Related Services supplied by independent qualified engineering companies which are engaged by Shenzhen Donica under the Master Supply Agreement, the Donica Connectivity shall pay to Shenzhen Donica an aggregate price equivalent to the quantity purchased at the agreed unit prices of the In-flight Equipment as specified in the Master Supply Agreement (which is based on the current price charged by Shenzhen Donica to its existing customers less a discount), the related service charges based on the units to be installed at the prices specified in the Master Supply Agreement and the applicable value added tax rate. Further discount for the In-flight Equipment may be given if the Company purchases up to a certain quantity within a certain period of time exceeding the amount as set out in the Master Supply Agreement.

During the year ended 31 December 2016, Donica Connectivity purchased property, plant and equipment of HK$nil (2015: HK$12,329,000) from Shenzhen Donica.

* *for identification purpose only*

12 INCOME TAX EXPENSE

Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year. The Group's subsidiaries in Mainland China are subject to the China corporate income tax at a rate of 25% (2015: 25%) on the estimated assessable profit. No income tax has been provided for the subsidiary in Canada since the subsidiary has no assessable profit for the year ended 31 December 2016.

	2016	2015
	HK$'000	*HK$'000*
Hong Kong profits tax:		
— Current taxation	**617**	985
— Over-provision in prior year	**(147)**	—
China corporate income tax	**289**	—
Deferred taxation *(Note 29)*	**(152)**	—
	607	985

The difference between the actual income tax charged to the consolidated statement of comprehensive income and the amounts which would result from applying the enacted tax rates to profit before income tax can be reconciled as follows:

	2016	2015
	HK$'000	*HK$'000*
Loss before income tax	**(43,141)**	(38,692)
Tax calculated at the domestic income tax rates	**(14,165)**	(8,523)
Income not subject to tax	**(8,864)**	(143)
Expenses not deductible for tax purposes	**2,413**	7,007
Tax losses not recognized	**21,341**	2,644
Effect of PRC withholding taxes	**29**	—
Over-provision in prior year	**(147)**	—
Income tax expense	**607**	985

13 LOSS PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company	**44,946**	42,086

	2016	2015
	'000	*'000*
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**421,453**	126,789

For the years ended 31 December 2016 and 31 December 2015, the computation of diluted loss per share does not assume the conversion of the Company's outstanding preferred shares since their exercise would result in a decrease in loss per share.

14 DIVIDENDS

The directors of the Company do not recommend any payment of dividends for the year ended 31 December 2016 (2015: Nil).

15 PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery *HK$'000*	Leasehold improvement *HK$'000*	Furniture, fixture and equipment *HK$'000*	WIFI and connection equipment *HK$'000*	Total *HK$'000*
Cost					
At 1 January 2015	4,600	8,935	3,867	—	17,402
Additions	1,370	276	585	18,232	20,463
Disposals	(914)	—	(202)	—	(1,116)
Write-off	—	(2,752)	(5)	(372)	(3,129)
Exchange differences	—	(5)	—	(326)	(331)
At 31 December 2015 and 1 January 2016	5,056	6,454	4,245	17,534	33,289
Acquisition of a subsidiary *(Note 31)*	—	—	10	—	10
Additions	2,210	270	1,030	13,482	16,992
Disposals	—	(3,410)	(280)	(6,627)	(10,317)
Write-off	—	—	—	(97)	(97)
Exchange difference	(3)	(15)	(11)	(1,228)	(1,257)
At 31 December 2016	7,263	3,299	4,994	23,064	38,620
Accumulated depreciation and impairment					
At 1 January 2015	1,400	2,053	1,300	—	4,753
Depreciation *(Note 8)*	1,491	1,996	936	59	4,482
Disposals	(516)	—	(104)	—	(620)
Write-off	—	(1,123)	(3)	—	(1,126)
Exchange difference	—	—	—	(1)	(1)
At 31 December 2015 and 1 January 2016	2,375	2,926	2,129	58	7,488
Depreciation *(Note 8)*	1,334	1,214	985	8,306	11,839
Disposals	—	(1,664)	(193)	(1,658)	(3,515)
Write-off	—	—	—	(23)	(23)
Impairment	—	—	103	16,689	16,792
Exchange differences	—	(11)	—	(976)	(987)
At 31 December 2016	3,709	2,465	3,024	22,396	31,594
Carrying amounts					
At 31 December 2016	3,554	834	1,970	668	7,026
At 31 December 2015	2,681	3,528	2,116	17,476	25,801

15 PROPERTY, PLANT AND EQUIPMENT *(continued)*

At 31 December 2016, the carrying amounts of furniture, fixture and equipment of approximately HK$2,000 (2015: HK$11,000) were held under finance lease.

Depreciation expense, of which approximately HK$9,587,000 (2015: HK$1,503,000) and HK$2,252,000 (2015: HK$2,979,000) was charged to “cost of sales” and “administrative expenses” respectively, aggregated to a total depreciation expense of approximately HK$11,839,000 (2015: HK$4,482,000).

The cooperation agreement between Donica Connectivity, one of the subsidiaries of the Company, and an airline in the PRC (the “Airline”) has been renewed on 24 October 2016 (the “2016 Cooperation Agreement”).

On 30 December 2016, Donica Connectivity has received a written notice dated 23 December 2016 from the Airline purporting to terminate the 2016 Cooperation Agreement due to certain requirements stated in the 2016 Cooperation Agreement were not fulfilled. Since the receipt of the termination notice, the Group has been communicating with the Airline for possible solution acceptable to both parties. Nevertheless no alternative solution was agreed. During the year ended 31 December 2016, impairment loss of approximately HK$7,098,000 was recognised for the WIFI and connection equipment as a result of the receipt of the termination notice. Please refer to note 37 to the consolidated financial statements for subsequent events.

As at 31 December 2016, the directors of the Company have assessed the recoverable amount of certain WIFI and connection equipment and determined an impairment loss of approximately HK$9,591,000 should be further recognised.

Impairment loss of approximately HK$16,689,000 (2015: nil) and HK$103,000 (2015: nil) was charged to “cost of sales” and “administrative expenses” respectively, aggregated to a total impairment loss on property, plant and equipment of approximately HK$16,792,000 (2015: nil).

16 INTANGIBLE ASSETS

	Goodwill HK$'000	Other intangible assets HK$'000	Total HK$'000
Cost			
At 1 January 2015, at 31 December 2015 and at 1 January 2016	18,266	—	18,266
Acquisition of a subsidiary in provisional amount *(Note 31)*	75,777	33,407	109,184
Exchange differences	275	121	396
At 31 December 2016	94,318	33,528	127,846
Amortisation			
At 1 January 2015, at 31 December 2015 and at 1 January 2016			
Charge for the year *(Note 8)*	—	684	684
Exchange difference	—	(4)	(4)
At 31 December 2016	—	680	680
Carrying amount			
At 31 December 2016	94,318	32,848	127,166
At 31 December 2015	18,266	—	18,266

Goodwill amounted to HK$18,266,000 arose from the acquisition of China Honest Enterprises Limited ("China Honest"). Goodwill was allocated to the sale of beauty products and provision of therapy services CGU (the "CGU 1"), which are operating segments.

On 23 November 2016, the Company entered into a sale and purchase agreement with Engineering Services International Holding Company Limited ("ESI Holdings"), to acquire the entire shares in Engineering Services Inc. ("ESI") at a cash consideration of HK$54,000,000. The acquisition was completed on 25 November 2016 (Note 31). Goodwill from such acquisition amounted to HK$75,777,000, as provisionally determined, has been allocated to the provision of engineering products and related services CGU (the "CGU 2").

16 INTANGIBLE ASSETS *(continued)*

Impairment test of goodwill arising from the acquisition of China Honest

Goodwill from the acquisition of China Honest has been allocated to CGU 1 for impairment testing.

The recoverable amount of the CGU 1 is determined based on a value-in-use calculation which uses cash flow projection based on financial budgets approved by the directors of the Company covering a five-year period, and a discount rate of 13.55% per annum (2015: 15.54% per annum).

Assumed growth rate is used to extrapolate the cash flows in the following years. The financial budgets are prepared based on a five-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments and achievement of business targets. The financial model assumes an average growth rate of 3% (2015: 3.5%) per annum beyond the five-year period taking into account of long term gross domestic product growth, inflation rate and other relevant economic factors.

Impairment test of goodwill arising from the acquisition of ESI

Goodwill acquired through business combination of the acquisition of ESI has been allocated to the CGU 2 for impairment testing.

The recoverable amount of the CGU 2 is determined based on a value-in-use calculation which uses cash flow projection based on financial budgets approved by the directors of the Company covering a ten-year period, and a discount rate of 20.6% per annum.

Assumed growth rate is used to extrapolate the cash flows in the following years. The financial budgets are prepared based on a ten-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments and achievement of business targets. The financial model assumes an average growth rate of 2% (2015: nil) per annum beyond the ten-year period taking into account of long term gross domestic product growth, inflation rate and other relevant economic factors.

The directors assessed the recoverable amount of the CGU 1 and CGU 2 with reference to the valuation performed by Roma Appraisals Limited and Vigers Appraisal and Consulting Limited respectively, both are independent qualified professional valuers, and determined that no impairment loss is recognised for the year ended 31 December 2016 and 2015 as the recoverable amounts exceeds the carrying amounts.

The directors of the Company believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the CGUs to exceed the their recoverable amounts.

Other intangible asset arose from the acquisition of the ESI completed on 25 November 2016. It represents the patents registered in the different countries. This intangible asset is amortised over the estimated useful life of 5 years. For the year ended 31 December 2016, amortisation of HK$684,000 (2015: nil) has been charged to “cost of sales” in the consolidated statement of comprehensive income.

17 INVENTORIES

	2016	2015
	HK$'000	HK$'000
Finished goods	2,645	2,954

The cost of inventories recognised as expenses and included in "cost of sales" amounted to HK$15,862,000 (2015: approximately HK$7,537,000).

Certain inventories were obsolete that could not generate future economic benefits and provision for impairment of inventories of approximately HK$36,000 (2015: approximately HK$7,000) was recognised.

18 TRADE RECEIVABLES

The Group allows credit periods to customers ranging from 0 day to 120 days. At 31 December 2016, trade receivables of HK$4,196,000 (2015: HK$4,022,000) were neither past due nor impaired. These related to a number of independent customers for whom there was no relevant history of default. Trade receivables that are less than three months past due are not considered impaired except for customers which are in unexpected difficult economic situations. Trade receivables of HK$707,000 (2015: Nil) were impaired in full. The amount of the individually impaired receivables mainly relate to customers that were in financial difficulties and have been past due for over 3 months.

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

	2016	2015
	HK$'000	HK$'000
Current	4,196	4,022
1 — 30 days	116	1,565
31 — 60 days	—	147
61 — 90 days	—	—
Over 90 days	707	—
	5,019	5,734
Less: Provision for impairment of trade receivables	(707)	—
Trade receivables, net	4,312	5,734

The carrying amounts of the Group's trade receivables approximate their fair values.

The Group's approach of managing credit risk is disclosed in note 3.

18 TRADE RECEIVABLES *(continued)*

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

	2016	2015
	HK$'000	*HK$'000*
HK$	**4,312**	4,987
RMB	**—**	747
	4,312	5,734

Movement in the provision for impairment of trade receivables for the Group is as follows:

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**—**	—
Provision for receivable impairment	**738**	—
Exchange difference	**(31)**	—
At 31 December	**707**	—

The impairment provision made during the year has been included in the "administrative expenses" in the consolidated statement of comprehensive income.

19 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Non-current assets		
Deposits	**1,479**	—
	1,479	—
Current assets		
Deposits paid	**194**	15,667
Prepayments	**1,320**	2,798
Other receivables *(Note a and b)*	**249,776**	299,552
Less: Provision for impairment of other receivables	**(247,143)**	(287,939)
	4,147	30,078
	5,626	30,078

Movement in the provision for impairment of other receivables for the Group are as follows:

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**287,939**	287,939
Provision for impairment	**5,717**	—
Reversal of previously recognised provision for impairment *(Note (b))*	**(46,513)**	—
At 31 December	**247,143**	287,939

Deposits, prepayment and other receivables are denominated in the following currencies:

	2016	2015
	HK$'000	*HK$'000*
HK$	**886**	8,900
RMB	**4,265**	21,178
CAD	**475**	—
	5,626	30,078

19 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

Notes:

(a) Included in the other receivables was a balance of HK$241,420,000 due from Blu Spa Group Limited, a former subsidiary. The balance was non-interest bearing, unsecured and repayable on demand. The subsidiary had not been consolidated since July 2011 due to lack of books and records and was subsequently disposed of at HK$1 on 19 December 2014 to Koffman Investment Limited, a company held by a former director of the Company. Full impairment had been made by 30 June 2014. Subsequent to 31 December 2016, the Directors of the Company filed a claim against the related former auditors (see Note 37).

(b) On 30 April 2010, Blu Spa (Hong Kong) Limited ("BSHK"), former subsidiary of the Group, entered into a sale and purchase agreement with Mr. Shum Yeung ("Mr. Shum"), pursuant to which BSHK had agreed to acquire an investment at a total consideration of HK$80,000,000. The Group paid a refundable deposit of HK$45,000,000 upon signing of the sale and purchase agreement in 2010. However, the acquisition did not proceed. The Group entered into a deed of termination and various deeds of settlement with Mr. Shum and the refundable deposit was partially repaid by Mr. Shum upon signing of the deeds. The Group has initiated legal proceedings against Mr. Shum for the outstanding refundable deposit of HK$39,127,000 since 2012. The deposit was fully provided for by 31 December 2014 as the outcome of the legal proceedings was uncertain.

On 13 December 2016, an order was granted by the Court of Appeal of the High Court of Hong Kong Special Administrative Region that, among others, the appeal taken out by Mr. Shum by way of a notice of appeal filed on 16 June 2016 be dismissed with no order as to costs. The Group received the aggregate amount of the outstanding and unpaid refundable deposit and the accrued interest of HK$51,132,000 as a result of the end of the aforesaid legal proceedings against Mr. Shum. As a result, the Group recognised an amount of reversal of impairment loss previously recognised in respect of other receivables and interest income of HK$46,513,000 and HK$4,619,000 respectively in the consolidated statement of comprehensive income in 2016.

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss		
— Equity securities listed in Hong Kong, at fair value	**7,052**	—
	7,052	—

	2016	2015
	HK$'000	*HK$'000*
Beginning of the year	**—**	—
Additions	**7,495**	—
Fair value loss through profit or loss *(Note 7)*	**(443)**	—
End of the year	**7,052**	—

The financial assets at fair value through profit or loss are denominated in HK$.

21 CASH AND CASH EQUIVALENTS

	2016	2015
	HK$'000	*HK$'000*
Cash at bank and on hand	**152,218**	116,055
Restricted bank deposits:		
Interest-bearing	**12,338**	12,657
	164,556	128,712

Bank balances earn interest at floating rates based on daily bank deposit rates ranging from 0.01% to 0.3% per annum (2015: from 0.01% to 0.35% per annum) and one-month time deposit rate of 0.84% per annum (2015: Nil). The bank balances are deposited with creditworthy banks with no recent history of default.

Restricted bank deposits were deposits held at bank in respect of credit card and instalment sales arrangement from its sale of beauty products and provision of therapy service business for varying periods of between one month to three months and earn interest at rates ranging from 0.05% to 0.60% per annum (2015: 0.05% to 0.70% per annum).

Cash and cash equivalents are denominated in the following currencies:

	2016	2015
	HK$'000	*HK$'000*
HK$	**157,589**	128,311
RMB	**5,412**	401
USD	**360**	—
CAD	**1,195**	—
	164,556	128,712

At 31 December 2016, approximately HK$5,249,000 (2015: HK$264,000) of the Group's cash and cash equivalents placed with banks in Mainland China were denominated in Renminbi, which is subject to foreign exchange control regulations of Mainland China.

22 SHARE CAPITAL

	Number of shares *'000*	Amount *HK$'000*
Ordinary shares of HK$0.10 each (2015: HK$0.10 each)		
Authorised:		
At 1 January 2015, at 31 December 2015, 1 January 2016 and at 31 December 2016	4,950,000	495,000
	4,950,000	495,000
Issued and fully paid:		
At 1 January 2015	74,803	7,480
Subscription of shares *(Note (a))*	345,000	34,500
At 31 December 2015 and at 1 January 2016	419,803	41,980
Placement of new shares *(Note (b))*	35,417	3,542
At 31 December 2016	455,220	45,522
Preferred shares of HK$0.10 each		
Authorised:		
At 1 January 2015	—	—
Reclassification *(Note (a))*	50,000	5,000
At 31 December 2015, 1 January 2016 and 31 December 2016	50,000	5,000
Issued and fully paid:		
At 1 January 2015	—	—
Subscription of preferred shares	30,000	3,000
At 31 December 2015, 1 January 2016 and 31 December 2016	30,000	3,000

22 SHARE CAPITAL *(continued)*

Notes:

(a) On 17 February 2015, the Company and certain subscribers ("Subscribers") entered into a subscription agreement ("Subscription Agreement"), pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 375,000,000 subscription shares ("Subscription Share(s)"), comprising 345,000,000 new ordinary shares and 30,000,000 new preferred shares ("Preferred Shares") at an issue price of HK$0.4 per Subscription Share (the "Subscription"). The aggregate gross subscription price amounts to approximately HK$150,000,000.

As one of the conditions precedent to the Subscription Agreement, the Company has reclassified and redesignated the existing shares of the Company of HK$0.1 each in the authorised share capital of the Company into 4,950,000,000 ordinary shares of HK$0.1 each and 50,000,000 preferred shares of HK$0.1 each.

The Subscription was completed on 6 November 2015, pursuant to the special mandate obtained at the special general meeting of the Company held on 30 October 2015 and according to the terms of the Subscription Agreement, 345,000,000 new ordinary shares have been duly allotted and issued as fully paid to the Subscribers and 30,000,000 Preferred Shares have been duly allotted and issued as fully paid to the Subscribers.

The total net proceeds of HK$135,958,000 were intended to be used for (i) raise a substantial amount of additional funds, which provides the Group with the financial flexibility necessary for future business development in the provision of in-flight WLAN and WIFI engineering and service business in parallel to its existing business; (ii) improve its financial position and liquidity; and (iii) leverage the expertise and business network of Mr. Cai Zhaoyang to take advantage of the expected strong growth in the avionic engineering and service business sector in the PRC.

Each preferred share is convertible into one ordinary share (subject to adjustment) by the preferred shareholder serving the conversion notice to the Company within the conversion period, without the payment of any additional consideration after the Preferred Shares have been fully paid according to the terms set out in the Subscription Agreement.

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

(b) On 14 December 2016, 35,417,000 new ordinary shares of HK$0.1 each were placed at a price of HK$4.8 per ordinary share by way of placement of new shares under general mandate, raising HK$168,300,000 (net of proceeds), of which HK$46,300,000 was intended to be used to settle the shareholders' loan due by ESI, and approximately HK$121,400,000 was intended to use as general working capital of the Group.

23 AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company is interest-free, unsecured and repayable on demand.

24 TRADE PAYABLES

As at 31 December 2016, the ageing analysis of trade payables by invoice date is as follows:

	2016	2015
	HK$'000	*HK$'000*
0 – 30 days	**877**	179
31 – 60 days	**88**	—
Trade payables	**965**	179

The carrying amounts of the Group's trade payables approximate their fair values.

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

	2016	2015
	HK$'000	*HK$'000*
HK$	**965**	79
RMB	**—**	100
	965	179

25 ACCRUALS AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Accruals	**11,798**	7,224
Other payables	**8,591**	9,869
	20,389	17,093

The carrying amounts of the Group's accruals and other payables approximate their fair values.

25 ACCRUALS AND OTHER PAYABLES *(continued)*

The carrying amounts of the Group's accruals and other payables balances are denominated in the following currencies:

	2016	2015
	HK$'000	*HK$'000*
HK$	**7,118**	11,529
RMB	**11,246**	5,564
CAD	**2,025**	—
	20,389	17,093

26 OTHER BORROWINGS

	2016	2015
	HK$'000	*HK$'000*
Interest bearing other borrowings	**—**	6,271
Non-interest bearing other borrowings	**1,960**	—
	1,960	6,271

Carrying amount repayable:

	2016	2015
	HK$'000	*HK$'000*
Within one year or on demand	**1,960**	6,271

At 31 December 2016, the non-interest bearing other borrowing was unsecured and repayable within one year.

At 31 December 2015, the interest bearing other borrowing with the amount of approximately HK$3,786,000 was interest bearing at 5% per annum, unsecured and repayable within one year. Interest bearing other borrowing with the amount of approximately HK$2,485,000 was interest bearing at 10% per annum, unsecured and repayable within one year. The interest bearing other borrowings outstanding at 31 December 2015 with the amount of approximately HK$6,271,000 was repaid during the year ended 31 December 2016.

The carrying amounts of the Group's other borrowings are denominated in HK$.

27 DEFERRED REVENUE

The movement of deferred revenue is as follows:

	HK$'000
At 1 January 2015	24,000
Sales contracts entered into during the year *(Note a)*	41,554
Revenue recognised upon the provision of services *(Note b)*	(36,260)
Revenue recognised upon expiry of prepaid treatment packages *(Note c)*	(3,921)
Revenue recognised for sales and redemptions of beauty products	(179)
Refunds of treatment packages *(Note d)*	(482)
At 31 December 2015 and at 1 January 2016	24,712
Sales contracts entered into during the year *(Note a)*	44,352
Revenue recognised upon the provision of services *(Note b)*	(38,275)
Revenue recognised upon expiry of prepaid treatment packages *(Note c)*	(4,533)
Refunds of treatment packages *(Note d)*	(113)
At 31 December 2016	26,143

Notes:

(a) The amounts represent receipts from provision of therapy services to clients during the year which were to be settled via credit cards, Electronic Payment System, cash and instalment payment arrangement.

(b) The amounts represent revenue recognised in the consolidated statement of comprehensive income as a result of therapy services rendered to clients during the years ended 31 December 2016 and 2015.

(c) The amounts represent revenue recognised in consolidated statement of comprehensive income for prepaid service packages expired in accordance with the contractual service periods stipulated in the respective sale contracts, which last for 3 months to 2 years from the invoice date of the sale contracts.

(d) The amounts represent refunds of treatment packages as a result of certain clients' claims for the years ended 31 December 2016 and 2015 in relation to treatment outcome assessed with reference to individual physical conditions and treatment progress on a case-by-case basis.

28 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2016, the Group leased a digital photocopier under finance lease. At 31 December 2015, the Group leased certain of its plant and machineries, a digital photocopier, equipment and WIFI and connection equipment under finance leases. The lease term is 1 year (2015: 1 year to 2 years). Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 0% to 3% per annum for the year. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		**Present value of minimum lease payments**	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
Within one year	**2**	4,390	**2**	4,338
More than one year and less than five years	**—**	2	**—**	2
	2	4,392	**2**	4,340
Less: future finance charges	**—**	(52)	**—**	—
	2	4,340	**2**	4,340
Less: amounts due for settlement within 12 months (shown under current liabilities)			**(2)**	(4,338)
Amounts due for settlement after 12 months			**—**	2

At 31 December 2016, included in obligations under finance leases with the amounts of approximately HK$2,000 (2015: approximately HK$11,000) is interest-free and secured by the Group's title to the leased assets with the amount of HK$ 2,000 (2015: approximately HK$11,000).

At 31 December 2015, included in the obligations under finance leases with the amounts of approximately HK$4,329,000 was secured by a deposit of approximately HK$12,752,000 (Note 19). The finance lease was fully repaid during the year ended 31 December 2016.

29 DEFERRED TAXATION

The followings are the deferred tax liabilities recognised and movements thereon:

	Recognition of other intangible assets	Unremitted earnings of subsidiaries in the PRC	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2015, at 31 December 2015 and 1 January 2016	—	—	—
Acquisition of subsidiaries *(Note 31)*	8,853	—	8,853
(Credit)/charge to profit or loss *(Note 12)*	(181)	29	(152)
Exchange difference	(149)	—	(149)
At 31 December 2016	8,523	29	8,552

At 31 December 2016, the Group has unused estimated tax losses of approximately HK$157,689,000 (2015: approximately HK$43,547,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams and unrecognised tax losses could be carried forward indefinitely for offsetting against future taxable profits.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group did not recognise deferred income tax assets (2015: nil) in respect of losses amounting to HK$38,024,000 (2015: HK$9,119,000) that can be carried forward against future taxable income, of which HK$25,647,000 and HK$8,711,000 (2015: HK$5,688,000 and nil) will expire in five years and expire in twenty years respectively. The remaining amount has no expiry date.

The Group is subject to withholding tax on distribution of profits generated from the Group's foreign-invested enterprises in the PRC. As all of the Group's foreign-invested enterprises are directly and wholly owned by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of this withholding tax.

30 STATEMENT OF FINANCIAL POSITION AND MOVEMENT OF RESERVE OF THE COMPANY

(a) Statement of financial position of the Company

	2016	2015
	HK$'000	*HK$'000*
ASSETS		
Non-current assets		
Property, plant and equipment	**3**	5
Interests in subsidiaries	**121,846**	39,876
	121,849	39,881
Current assets		
Deposits, prepayments and other receivables	**150**	4,183
Cash and cash equivalents	**119,817**	102,277
	119,967	106,460
Total assets	**241,816**	146,341
EQUITY		
Capital and reserves		
Share capital — ordinary shares	**45,522**	41,980
Share capital — preferred shares	**3,000**	3,000
Reserves	**190,690**	88,573
Total equity	**239,212**	133,553
LIABILITIES		
Current liabilities		
Amount due to a former director	**64**	64
Accruals and other payables	**2,466**	10,239
Other borrowings	**74**	2,485
Total liabilities	**2,604**	12,788
Total equity and liabilities	**241,816**	146,341
Net current assets	**117,363**	93,672
Total assets less current liabilities	**239,212**	133,553

The balance sheet of the Company was approved by the Board of Directors on 8 March 2017 and was signed on its behalf.

Cai Zhaoyang
Director

Lee Chan Wah
Director

30 STATEMENT OF FINANCIAL POSITION AND MOVEMENT OF RESERVE OF THE COMPANY *(continued)*

(b) Movement of reserves of the Company

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	97,922	27,141	(84,992)	40,071
Loss and total comprehensive loss	—	—	(49,956)	(49,956)
Subscription of shares	112,500	—	—	112,500
Share issue expenses	(14,042)	—	—	(14,042)
At 31 December 2015 and at 1 January 2016	196,380	27,141	(134,948)	88,573
Profit and total comprehensive income	—	—	(60,516)	(60,516)
Placement of new shares	164,758	—	—	164,758
Share issue expenses	(2,125)	—	—	(2,125)
At 31 December 2016	359,013	27,141	(195,464)	190,690

31 BUSINESS COMBINATION

On 23 November 2016, the Company entered into a sale and purchase agreement with ESI Holdings, for acquiring 100% of the equity shares in ESI at a cash consideration of HK$54,000,000. The acquisition was completed on 25 November 2016.

As a result of the acquisition, the Group is expected to increase its engineering business portfolio to include high-tech robotics and light machinery and extend the geographical coverage of its business operations. The goodwill of HK$75,777,000 arising from the acquisition is attributable to further expand its business portfolio and business territory. None of the goodwill recognised is expected to be deductible for income tax expenses.

The initial accounting has not been completed as the business combination occurred in late November 2016, being close to the Group's year end and when the fair value is not easily determinable. Therefore, management is in the view of accounting for the business combination using provisionally determined amounts for goodwill, other intangible assets (patents) and deferred tax liabilities arising from business combination.

The revenue included in the consolidated statement of comprehensive income for the period from 25 November 2016 to 31 December 2016 contributed by ESI was HK$1,000. ESI also contributed loss of HK$2,900,000 over the same period. The net cash outflow from acquisition of ESI approximated HK$51,111,000 during the year ended 31 December 2016, which mainly comprised of cash consideration of HK$54,000,000 offset by cash and cash equivalent of approximately HK$2,889,000 acquired from ESI. Had ESI been consolidated from 1 January 2016, the consolidated statement of comprehensive income would show pro-forma revenue of HK$61,677,000 and loss of HK$74,934,000.

31 BUSINESS COMBINATION *(continued)*

	On acquisition HK$'000
Purchase consideration:	
— Cash paid	54,000
Total purchase consideration	54,000
Fair value of net liabilities acquired (see below)	21,777
Goodwill	75,777

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK$'000
Cash and cash equivalents	2,889
Property, plant and equipment *(Note 15)*	10
Other intangible assets	33,407
Prepayments and other receivables	358
Accruals and other payables	(49,588)
Deferred tax liabilities *(Note 29)*	(8,853)
Net liabilities acquired	(21,777)

The following values of the identifiable assets and liabilities have been determined on the following basis:

(a) The fair value of prepayments and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the date of acquisition.

(b) The fair value of non-derivative financial liabilities, which includes accruals and other payables, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the date of acquisition.

The following fair values have been determined on a provision basis:

(a) The fair value of other intangible assets acquired in a business combination is based on the discounted cash flows expected to be derived from the use and eventual sales of the goods and services of the acquired subsidiary.

32 COMMITMENTS

Lease commitments

The Group as lessee

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

	2016	2015
	HK$'000	*HK$'000*
Within one year	**9,137**	6,639
In the second to fifth year inclusive	**6,058**	6,703
	15,195	13,342

Operating lease payments represent rentals paid or payable by the Group for its office and retail shops premises. Leases are mainly negotiated for an average terms of one to three years.

Rentals are fixed over the guarantee rental or a sales level based on the higher of a minimum guarantee rentals or a sales level based rental. As the future sales could not be reliably determined, the relevant sales level based rental has not been included above and only the minimum lease commitments have been included in the above table. The Group does not have an option to purchase the leased premises at the expiry of the lease period.

Capital commitment

The Group had the following outstanding commitment at the end of the reporting period:

	2016	2015
	HK$'000	*HK$'000*
Authorised and contracted, but not provided for:		
— Acquisition of property, plant and equipment	**—**	8,179

33 RETIREMENT BENEFIT SCHEME

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. The assets of the fund are held separately from those of the Group and are managed by independent professional fund managers. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of HK$1,500 per month, as appropriate, as defined in the Mandatory Provident Fund Ordinance, and thereafter contributions are voluntary.

The employees of the Group's subsidiaries in the PRC are members of state-managed retirement benefit schemes operated by the government of the PRC. The subsidiaries are required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes operated by the government of the PRC is to make the specified contributions under the schemes.

The Group participates in a retirement scheme for qualified employees of its subsidiary in Canada. Under the retirement scheme, each of the Group (the employer) and its employees make monthly contributions to the scheme at 5% of the relevant income (comprising wages and salaries) at maximum. The monthly contributions of each of the employer and the employee are subject to a cap of CAD 2,544 (equivalent to HK$14,700 approximately). The Group has no further obligations for post-retirement benefits beyond the contributions.

34 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2016	2015
	HK$'000	*HK$'000*
Loss before taxation	**(43,141)**	(38,692)
Adjustments for:		
Amortization of other intangible assets	**684**	—
Depreciation of property, plant and equipment	**11,839**	4,482
Loss on disposal of property, plant and equipment	**998**	136
Fair value loss in respect of financial assets at fair value through profit or loss	**443**	—
Impairment loss recognised in respect of trade receivables	**738**	—
Impairment loss recognised in respect of property, plant and equipment	**16,792**	—
Impairment loss recognised in respect of deposits, prepayments and other receivables	**5,717**	—
Interest expenses	**198**	981
Interest income	**(90)**	(249)
Write-off of property, plant and equipment	**74**	2,003
Write-off of inventories	**104**	—
Provision for impairment of inventories	**36**	7
Operating cash flows before movements in working capital	**(5,608)**	(31,332)
Decrease/(increase) in inventories	**169**	(1,038)
Decrease/(increase) in trade receivables	**715**	(188)
Decrease/(increase) in deposits, prepayments and other receivables	**6,215**	(24,330)
Increase/(decrease) in trade payables	**786**	(31)
(Decrease)/increase in accruals, other payables and deposits	**(37,023)**	11,869
Increase in deferred revenue	**1,431**	712
Cash used in operations	**(33,315)**	(44,338)

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

	2016	2015
	HK$'000	*HK$'000*
Net book amount *(Note 15)*	**6,802**	496
Loss on disposal of property, plant and equipment *(Note 7)*	**(998)**	(136)
Waiver of other payables	**(5,767)**	—
Proceeds from disposal of property, plant and equipment	**37**	360

34 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(c) Major non-cash transactions:

The cooperation agreement between Donica Connectivity, one of the subsidiaries of the Company and the Airline has been renewed on 24 October 2016 (the "2016 Cooperation Agreement").

During the year, the Group disposed its 10 sets of WIFI equipment amounting HK$4,911,000 and deposits of approximately HK$3,495,000 to the Airline to set off against the outstanding payable of approximately HK$9,262,000 as a result of renewal of the cooperation agreement as mutually agreed by the parties involved.

35 MATERIAL RELATED PARTY TRANSACTIONS

(a) The following significant transactions were carried out with related parties:

Name of parties	Nature of transactions	**2016** ***HK$'000***	2015 *HK$'000*
Shenzhen Donica *(Note i)*	Purchase of property, plant and equipment	—	12,329

Notes:

(i) Shenzhen Donica is 42.78% (2015: 41.98%) owned by Mr. Cai Zhaoyang, the Executive Director, Chairman and Chief Executive Officer of the Company. The above transactions were conducted in the normal course of business of the Company and charged at terms mutually agreed by the parties concerned or in accordance with the terms of the underlying agreements, where appropriate.

(b) Key management compensation

Key management personnel are the Company's executive directors. Details of compensation of key management personnel are disclosed in Note 11 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries at the end of the reporting periods are set out as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and paid up share capital	Effective interest held (%) 2016	2015	Principal activities
Century Capital Holdings Limited	British Virgin Islands	US$1 (2015: US$1)	**100%**	100%	Investment holding
Century Finance (BVI) Limited	British Virgin Islands	US$1 (2015: US$1)	**100%**	100%	Investment holding
Century Finance Limited	Hong Kong	HK$1 (2015: HK$1)	**100%**	100%	Investment holding
China Honest	Hong Kong	HK$100 (2015: HK$1)	**51%**	51%	Marketing development, product distribution and customer support services
EDS (Asia) Limited	Hong Kong	HK$1 (2015: HK$1)	**100%**	100%	Marketing development, product distribution and customer support services
EDS (China) Limited	Hong Kong	HK$1 (2015: HK$1)	**100%**	100%	Investment holding
EDS Distribution Limited	Hong Kong	HK$1 (2015: HK$1)	**100%**	100%	Marketing development, product distribution and customer support services
EDS International Holdings Limited	British Virgin Islands	US$1 (2015: US$1)	**100%**	100%	Investment holding
西安伊菲丹化妝品銷售有限公司@	The PRC	Nil (2015: HK$500,000)	**—**	100%	Dormant
China SkyNet Limited	Hong Kong	HK$1 (2015: HK$1)	**100%**	100%	Investment holding and investment in securities
Donica Connectivity@	The PRC	RMB50,000,000 (2015: RMB5,000,000)	**100%**	100%	Provision of in-flight WLAN and WIFI engineering and services
ESI	Canada	CAD12 (2015: Nil)	**100%**	—	Provision of engineering products and related services
Ace Force Holding Limited	British Virgin Islands	US$1 (2015: Nil)	**100%**	—	Investment holding
安兆科技(深圳)有限公司@	The PRC	HK$5,000,000 (2015: Nil)	**100%**	—	Provision of engineering products and related services
China Star Alliance Limited	Hong Kong	HK$1 (2015: Nil)	**100%**	—	Dormant
Star Run Investments Limited	British Virgin Islands	US$1 (2015: Nil)	**100%**	—	Investment holding

@ Wholly-owned foreign enterprise

None of the subsidiaries had debt securities outstanding at the end of the reporting periods or at any time during the years.

36 PARTICULARS OF SUBSIDIARIES *(continued)*

Material non-controlling interests

As at 31 December 2016, the total non-controlling interests is HK$308,000 (2015: HK$ 825,000), solely representing their interests in China Honest.

Set out below are the summarised financial information for China Honest that has non-controlling interests that are material to the Group.

Summarised statement of financial position

	2016	2015
	HK$'000	*HK$'000*
Current assets	**32,569**	34,569
Non-current assets	**7,168**	5,365
Current liabilities	**(39,108)**	(38,249)
Equity attributable to owners of the Company	**321**	860
Non-controlling interests	**308**	825

36 PARTICULARS OF SUBSIDIARIES *(continued)*

Material non-controlling interests *(continued)*

Summarised income statement

	2016	2015
	HK$'000	*HK$'000*
Revenue	**46,667**	41,686
Profit	**2,445**	4,917
Profit attributable to owners of the Company	**1,247**	2,508
Profit attributable to the non-controlling interests	**1,198**	2,409
Profit	**2,445**	4,917
Other comprehensive income attributable to owners of the Company	**—**	—
Other comprehensive income to the non-controlling interests	**—**	—
Other comprehensive income during the year	**—**	—
Total comprehensive income attributable to owners of the Company	**1,247**	2,508
Total comprehensive income to the non-controlling interests	**1,198**	2,409
Total comprehensive income	**2,445**	4,917
Dividend paid to non-controlling interests	**1,715**	5,341

Summarised cash flows

	2016	2015
	HK$'000	*HK$'000*
Net cash inflow from operating activities	**4,931**	13,796
Net cash outflow from investing activities	**(3,064)**	(12,737)
Net cash outflow from financing activities	**(3,500)**	(435)
Net cash (outflow)/inflow	**(1,633)**	624

37 EVENTS AFTER REPORTING PERIOD

The following significant events took place subsequent to 31 December 2016:

(1) On 3 January 2017, subject to the acceptance of the grantees, 7,480,000 share options to subscribe for the shares were granted to the employees of the Company under the share option scheme of the Company.

(2) On 30 December 2016, the Company has announced the receipt of termination notice from the Airline. Since then, the Group has been communicating with the Airline for possible solution acceptable to both parties. Nevertheless no alternative solution is agreed. On 23 January 2017, the Company has announced that the 2016 Cooperation Agreement will be terminated.

(3) On 28 February 2017, the Company has announced that the Company and Blu Spa (Hong Kong) Limited ("BSHK") as plaintiffs filed a statement of claim with the Court of First Instance of the High Court of Hong Kong against the former auditors of both the Company and BSHK for contractual and negligence claims in conducting the audits on the financial statements of each of the plaintiffs for the years ended 30 June 2008, 2009 and 2010.

FINANCIAL SUMMARY

	For the twelve months ended 31 December		For the six months ended 31 December	For the twelve months ended 30 June	
	2016	2015	2014	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Revenue	**61,521**	46,989	22,084	27,582	8,140
Profit/(Loss) for the year/period attributable to:					
— Owners of the Company	**(44,946)**	(42,086)	(48,939)	(11,768)	(23,568)
— non-controlling interests	**1,198**	2,409	1,896	1,150	—
	(43,748)	(39,677)	(47,043)	(10,618)	(23,568)

Assets and liabilities

	For the twelve months ended 31 December		For the six months ended 31 December	For the twelve months ended 30 June	
	2016	2015	2014	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**318,643**	211,545	90,366	141,874	53,831
Total liabilities	**(58,288)**	(71,368)	(41,310)	(140,932)	(51,917)
Non-controlling interests	**(308)**	(825)	(3,757)	(1,861)	—
Equity attributable to owners of the Company	**260,047**	139,532	45,299	(919)	1,914