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# SkyNet Group Limited
# 航空互聯集團有限公司

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

**(Stock Code: 8176)**

## FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*This announcement, for which the directors of SkyNet Group Limited (the "**Company**") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement 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 announcement misleading.*

**RESULTS**

The board of directors (the "**Board**") of the Company is pleased to announce the consolidated results of the Company and its subsidiaries (together the "**Group**") for the year ended 31 December 2016, together with the comparative audited figures for the year ended 31 December 2015 as follows.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*For the year ended 31 December 2016*

| | *Note* | **2016** *HK$'000* | 2015 *HK$'000* |
|---|---|---|---|
| Revenue | | **61,521** | 46,989 |
| Cost of sales | | **(106,994)** | (47,834) |
| Gross loss | | **(45,473)** | (845) |
| Other income | | **307** | 252 |
| Other losses, net | | **(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 | | **51,132** | — |
| Operating loss | *4* | **(42,943)** | (37,711) |
| Finance costs | | **(198)** | (981) |
| Loss before income tax | | **(43,141)** | (38,692) |
| Income tax expense | *5* | **(607)** | (985) |
| Loss for the year | | **(43,748)** | (39,677) |
| Other comprehensive income: | | | |
| Item that may be subsequently reclassified to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | **(534)** | 181 |
| Other comprehensive (loss)/income for the year, net of tax | | **(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 owners of the Company for the year | | | |
| Basic and diluted (expressed in HK cent per share) | *6* | **(10.66)** | (33.19) |

## 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 | | **7,026** | 25,801 |
| Intangible assets | *8* | **127,166** | 18,266 |
| Deposits | | **1,479** | — |
| | | **135,671** | 44,067 |
| Current assets | | | |
| Inventories | | **2,645** | 2,954 |
| Tax recoverable | | **260** | — |
| Trade receivables | *9* | **4,312** | 5,734 |
| Deposits, prepayments and other receivables | | **4,147** | 30,078 |
| Financial assets at fair value through profit or loss | | **7,052** | — |
| Restricted bank deposits | | **12,338** | 12,657 |
| Cash and cash equivalents | | **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 | | **45,522** | 41,980 |
| Share capital — Preferred shares | | **3,000** | 3,000 |
| Reserves | | **211,525** | 94,372 |
| | | **260,047** | 139,352 |
| Non-controlling interests | | **308** | 825 |
| Total equity | | **260,355** | 140,177 |

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Amount due to a related company | | **—** | 16,286 |
| Trade payables | *10* | **965** | 179 |
| Accruals and other payables | | **20,389** | 17,093 |
| Other borrowings | | **1,960** | 6,271 |
| Tax payables | | **277** | 2,487 |
| Deferred revenue | | **26,143** | 24,712 |
| Obligations under finance leases | | **2** | 4,338 |
| | | **49,736** | 71,366 |
| Non-current liabilities | | | |
| Obligations under finance leases | | **—** | 2 |
| Deferred income tax liabilities | | **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 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*As at 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 income 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:**

## 1 General information

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

The consolidated financial statements of the Company 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.

### *2.1 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 results of operations and financial position.

### 2.2 *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 |

Management is in the process of making an assessment of the impact of these new standards and amendments to standards and is not yet in a position to state whether they will have a significant impact to the Group's results of operations and financial position.

## 3 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 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

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** *HK$'000* | **Provision of therapy services** *HK$'000* | **Provision of engineering products and related services** *HK$'000* | **Consolidated** *HK$'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 | | | | 51,132 |
| Interest income on bank deposits | | | | 90 |
| Unallocated corporate income | | | | 217 |
| Unallocated corporate expenses | | | | (33,589) |
| Financial assets at fair value through profit or loss – fair value losses | | | | (443) |
| Finance costs | | | | (198) |
| Loss before income tax | | | | (43,141) |
| Income tax expense | | | | (607) |
| Loss for the year | | | | (43,748) |

*At 31 December 2016*

| | 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 | 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 *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 | — | 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 |

*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 | | | | 249 |
| Unallocated corporate income | | | | 3 |
| Unallocated corporate expenses | | | | (28,082) |
| Imputed interest on promissory notes | | | | (351) |
| Finance costs | | | | (630) |
| Loss before income tax | | | | (38,692) |
| Income tax expense | | | | (985) |
| Loss for the year | | | | (39,677) |

*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 generated 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-maker for the purposes of resource allocation and assessment of segment performance.

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, prepayments 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 segment. Assets used jointly by 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:

| **Analysis of revenue by category** | **2016** ***HK$'000*** | 2015 *HK$'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 |

## 4 Operating loss

Operating loss has been arrived at after charging:

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

## 5 Income tax expense

Hong Kong profits tax has been provided 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 the rate of 25% (2015: 25%) on the estimated assessable profit. No income tax has been provided for the subsidiary in Canada as the subsidiary has no assessable profit for the period ended 31 December 2016.

| | 2016<br>*HK$'000* | 2015<br>*HK$'000* |
|---|---|---|
| Hong Kong profits tax: | | |
| — Current tax | **617** | 985 |
| — Over-provision in prior year | **(147)** | — |
| China Corporate Income Tax | **289** | — |
| Deferred tax | **(152)** | — |
| | **607** | 985 |

## 6 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 in issue for the purpose of basic and diluted loss per share | **421,453** | 126,789 |

For the year ended 31 December 2016, 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 (2015: same).

## 7 Dividends

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

## 8 Intangible assets

| | **Goodwill** | **Other intangible assets** | **Total** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Cost | | | |
| At 1 January 2015, 31 December 2015 and 1 January 2016 | 18,266 | — | 18,266 |
| Acquisition of a subsidiary in provisional amounts | 75,777 | 33,407 | 109,184 |
| Exchange differences | 275 | 121 | 396 |
| At 31 December 2016 | 94,318 | 33,528 | 127,846 |

| | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Amortisation | | | |
| At 1 January 2015, 31 December 2015 and 1 January 2016 | — | — | — |
| Charge for the year | — | 684 | 684 |
| Exchange differences | — | (4) | (4) |
| At 31 December 2016 | — | 680 | 680 |
| Net book amount | | | |
| At 31 December 2016 | 94,318 | 32,848 | 127,166 |
| At 31 December 2015 | 18,266 | — | 18,266 |

Goodwill of 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 CGUs (the "Group of CGUs").

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. As the acquisition was completed close to the Company's year end, the initial accounting of business combination by recognising the fair values of identifiable assets and liabilities of ESI as of the date of acquisition is not completed. Therefore, management accounted for the business combination using provisionally determined amounts for goodwill and intangible assets arising from the acquisition. As a result, a goodwill of HK$75,777,000 and other intangible assets of HK$33,407,000 were recognised on a provisional basis.

## 9 Trade receivables

The ageing analysis of trade receivables by 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 |

## 10 Trade payables

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.

## 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 Airline's 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.

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 the 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 this announcement immediately after 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$135.0 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.

## 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.

## 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.

## AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. As at the date of this announcement, the Audit Committee comprises three independent non-executive directors of the Company, namely Mr. Chu Kin Wang, Peleus (chairman), Mr. Tam B Ray, Billy and Mr. Tse Joseph. The Audit Committee has reviewed the Group's audited consolidated final results for the financial year ended 31 December 2016 and provided advice and comments thereon.

## CODE ON CORPORATE GOVERNANCE PRACTICES

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

Save as disclosed below, during the year under review and up to the date of this announcement, 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 code provisions of the CG Code:

**Role of chairman and chief executive officer**

Mr. Cai Zhaoyang is the Chairman as well as the Chief Executive Officer of the Company. This arrangement deviated from the provision of A.2.1 of the CG Code, which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

The directors are of the opinion that the arrangement would provide stronger leadership of the management for the Group and enable effective business planning and implementation. The directors believe that it does not have a material adverse impact on the corporate governance of the Company.

The Board will carry out a regular review and propose any amendment, if necessary, to ensure compliance with the CG Code provisions as set out in the GEM Listing Rules.

**Insurance for potential legal actions against the directors**

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. Up to the date of this announcement, the Company is still arranging for appropriate liability insurance for the directors for indemnifying their liabilities arising from corporate activities.

## 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.

## COMPLIANCE WITH THE MODEL CODE FOR 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 of the Company, 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.

By Order of the Board
**SkyNet Group Limited**
**Cai Zhaoyang**
*Executive Director, Chairman and Chief Executive Officer*

Hong Kong, 8 March 2017

*As at the date of this announcement, the Board comprises six executive directors, namely Mr. Cai Zhaoyang, Mr. Chan Kin Wah, Billy, Mr. Lee Chan Wah, Mr. Zhang Chong, Mr. Zhang Chongdi and Dr. Andrew Goldenberg; and three independent non-executive directors, namely Mr. Tam B Ray, Billy, Mr. Chu Kin Wang, Peleus and Mr. Tse Joseph.*

*This announcement 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.*