HNA TECH INV
海航科技投資

HNA Technology Investments Holdings Limited
海航科技投資控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2086)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2017 increased by 20% to HK$182.3 million.
- Gross profit of the Group for the year ended 31 December 2017 increased by 40% to HK$103.8 million.
- The Group turned around from its loss position and recorded a profit for the year of HK$5.7 million (2016: loss for the year of HK$18.5 million) for the year ended 31 December 2017.
- The Board did not recommend payment of the final dividend for the year ended 31 December 2017.

RESULTS

The board of directors (the "Board") of HNA Technology Investments Holdings Limited (the "Company") are pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 together with the comparative figures for the corresponding period in 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017 (Expressed in Hong Kong dollars)

	Note	2017	2016
		$'000	*$'000*
Revenue	3	**182,272**	152,284
Cost of sales and services		**(78,498)**	(78,095)
Gross profit		**103,774**	74,189
Other income	4	**1,420**	1,123
Selling and distribution costs		**(17,911)**	(16,705)
Research and development expenses		**(26,921)**	(36,509)
Administrative expenses		**(53,535)**	(39,926)
Profit/(loss) from operations		**6,827**	(17,828)
Finance costs	5(a)	**(165)**	(1,056)
Share of results of a joint venture		**(209)**	(1,639)
Profit/(loss) before taxation	5	**6,453**	(20,523)
Income tax	6	**(764)**	2,020
Profit/(loss) for the year attributable to the equity shareholders of the Company		**5,689**	(18,503)
Earnings/(loss) per share	8		
Basic		**1.780 cents**	(6.268 cents)
Diluted		**1.780 cents**	(6.268 cents)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017 (Expressed in Hong Kong dollars)

	2017	2016
	$'000	*$'000*
Profit/(loss) for the year	**5,689**	(18,503)
Other comprehensive income for the year (after tax)		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit obligations	**(172)**	(32)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**1,155**	(1,423)
Total comprehensive income for the year attributable to equity shareholders of the Company	**6,672**	(19,958)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017 (Expressed in Hong Kong dollars)

	Note	**2017**	2016
		$'000	*$'000*
Non-current assets			
Plant and equipment	*9*	**5,270**	5,371
Intangible assets	*10*	**47,000**	45,263
Goodwill		**–**	1,172
Interest in a joint venture		**–**	209
Prepayment for available-for-sale securities		**–**	377
Deferred tax assets		**2,709**	755
		54,979	53,147
Current assets			
Inventories		**37,974**	29,998
Trade and other receivables	*11*	**57,744**	56,644
Held-to-maturity financial assets		**858**	861
Current tax recoverable		**556**	593
Cash and cash equivalents		**29,632**	40,551
		126,764	128,647
Current liabilities			
Trade and other payables	*12*	**23,948**	19,496
Bank loans		**–**	14,222
Current tax payable		**2,211**	31
		26,159	33,749
Net current assets		**100,605**	94,898
Total assets less current liabilities		**155,584**	148,045
Non-current liabilities			
Defined benefit obligations		**1,373**	864
Deferred tax liabilities		**510**	152
		1,883	1,016
NET ASSETS		**153,701**	147,029
CAPITAL AND RESERVES			
Share capital		**31,956**	31,956
Reserves		**121,745**	115,073
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**153,701**	147,029

NOTES

1 GENERAL INFORMATION

HNA Technology Investments Holdings Limited (formerly known as Advanced Card Systems Holdings Limited) (the "Company") was incorporated in the Cayman Islands on 13 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its registered office is located at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business was at Units 2010-2013, 20th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong up to 20 August 2017 and has changed to Units 505-507, Level 5, Two Exchange Square, 8 Connaught Place, Central, Hong Kong effective from 21 August 2017.

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

2 BASIS OF PREPARATION

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

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. Adoption of these developments does not result in a significant impact of the Group's results of operations and financial position for the current or comparative periods nor any significant change in the Group's accounting policies. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the development, sales and distribution of smart card products, software and hardware, provision of smart card related services and provision of advisory services.

Revenue mainly represents the invoiced value of products sold and services provided to customers, net of value added tax, returns and trade discounts. The amount of each significant category of revenue is as follows:

	2017	2016
	$'000	*$'000*
Sale of smart card products and provision of related services	**166,272**	152,284
Advisory services	**16,000**	–
	182,272	152,284

The Group's customer base is diversified and includes only the following customers with whom transactions have exceeded 10% of the Group's revenues. During 2017 and 2016, revenue derived from these customers, including sales to entities which are known to the Group to be under common control, are as follows:

	2017	2016
	$'000	*$'000*
Customer A	**23,677**	–
Customer B*	**N/A#**	14,288
Customer C*	**N/A#**	3,804

* Customers B and C are known to the Group to be under common control.

\# The corresponding revenue did not contribute over 10% of the Group's revenue.

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

– The financial technology and smart living business mainly represents the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services; and

– The financial services and investment business mainly represents the provision of advisory services including financial due diligence and business operation consultancy services.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets, interest in joint venture, deferred tax assets and current assets with the exception of cash and cash equivalents and other corporate assets. Segment liabilities include trade and other payable, defined benefit obligations, current tax payable, deferred tax liabilities with the exception of bank loans and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses include the Group's share of revenue and expenses arising from the activities of the Group's joint venture.

The measure used for reporting segment profit is "profit/(loss) from operations". To arrive at "profit/(loss) from operations", the Group's profit is further adjusted for items not specifically attributed to individual segments, such as directors' remuneration, interest income, finance costs and other head office and corporate expenses.

In addition to receiving segment information concerning profit/(loss) from operations, management is provided with segment information concerning revenue, depreciation and amortisation, impairment loss and additions to non–current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below:

	Financial technology and smart living		**Financial services and investment**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Reportable segment revenue	**166,272**	152,284	**16,000**	–	**182,272**	152,284
Reportable segment profit/ (loss) from operations	**12,251**	(14,123)	**5,664**	–	**17,915**	(14,123)
Depreciation and amortisation for the year	**(11,671)**	(14,361)	**(9)**	–	**(11,680)**	(14,361)
Impairment of						
– trade and other receivables	**(4,756)**	(3,391)	**–**	–	**(4,756)**	(3,391)
– intangible assets	**(281)**	(1,961)	**–**	–	**(281)**	(1,961)
– goodwill	**(1,172)**	(800)	**–**	–	**(1,172)**	(800)
Reportable segment assets	**134,129**	141,243	**30,649**	–	**164,778**	141,243
Reportable segment liabilities	**38,490**	20,543	**2,219**	–	**40,709**	20,543
Additions to non-current segment assets during the year	**2,699**	2,495	**116**	–	**2,815**	2,495

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities

	2017	2016
	$'000	*$'000*
Revenue		
Reportable segment revenue	**182,272**	152,284
Consolidated revenue	**182,272**	152,284

	2017	2016
	$'000	*$'000*
Profit or loss		
Reportable segment profit/(loss) from operations	**17,915**	(14,123)
Interest income	**157**	101
Finance costs	**(165)**	(1,056)
Unallocated head office and corporate expenses	**(11,454)**	(5,445)
Consolidated profit/(loss) before taxation	**6,453**	(20,523)

	2017	2016
	$'000	*$'000*
Assets		
Reportable segment assets	**164,778**	141,243
Elimination of inter-segment receivables	**(12,667)**	–
	152,111	141,243
Unallocated head office and corporate assets	**29,632**	40,551
Consolidated total assets	**181,743**	181,794

	2017	2016
	$'000	*$'000*
Liabilities		
Reportable segment liabilities	**40,709**	20,543
Elimination of inter-segment payables	**(12,667)**	–
	28,042	20,543
Unallocated head office and corporate liabilities	**–**	14,222
Consolidated total liabilities	**28,042**	34,765

(iii) Geographic information

The following table sets out information about the geographic location of (i) the Group's revenue from external customers and (ii) the Group's plant and equipment, intangible assets, goodwill, interest in a joint venture and non-current prepayment ("specified non-current assets"). The geographic location of customers is based on the location at which the services were provided or the goods are delivered. The geographic location of the specified non-current assets is based on the physical location of the asset, in the case of plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of the operations, in the case of interest in a joint venture and non-current prepayment.

	Revenue from external customers		**Specified non-current assets**	
	2017	2016	**2017**	2016
	$'000	*$'000*	***$'000***	*$'000*
The People's Republic of China ("PRC"), including Hong Kong and Macau (country of domicile)	**38,639**	27,104	**51,243**	50,811
United States	**24,986**	15,533	**–**	–
Republic of Fiji	**23,677**	–	**–**	–
Japan	**14,108**	11,463	**–**	–
Republic of the Philippines ("Philippines")	**6,354**	11,416	**1,027**	1,578
Other countries	**74,508**	86,768	**–**	3
	143,633	125,180	**1,027**	1,581
	182,272	152,284	**52,270**	52,392

4 OTHER INCOME

	2017	2016
	$'000	*$'000*
Government subsidies*	**1,186**	884
Interest income	**157**	101
Sundry income	**77**	138
	1,420	1,123

* During the year ended 31 December 2017, the Group successfully applied for research and development subsidy and high-end innovative enterprise subsidy from the PRC Government of $1,186,000 (2016: $884,000). The purpose of the subsidies is to encourage innovation by granting financial assistance to commercial entities whose research and development projects meet certain criteria.

5 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting):

	2017 *$'000*	2016 *$'000*
(a) Finance costs:		
Interest on bank loans and other borrowings	**192**	1,519
Less: Interest expense capitalised into development costs*	**(27)**	(463)
	165	1,056

* The borrowing costs have been capitalised at a rate of 3% per annum (2016: 3% to 4%).

	2017 *$'000*	2016 *$'000*
(b) Staff costs:		
Contributions to defined contribution retirement plans	**2,007**	2,672
Net expenses recognised in respect of a defined benefit retirement plan	**287**	224
Total retirement costs	**2,294**	2,896
Salaries, wages and other benefits	**55,050**	54,700
	57,344	57,596
Less: Amount capitalised into development costs	**(7,616)**	(9,064)
	49,728	48,532

	2017 *$'000*	2016 *$'000*
(c) Other items:		
Amortisation of intangible assets	**8,748**	11,687
Depreciation	**2,932**	2,674
Provision for impairment losses		
– trade and other receivables	**4,756**	3,391
– intangible assets	**281**	1,961
– goodwill	**1,172**	800
Auditors' remuneration		
– audit services	**1,056**	996
– other services*	**190**	288
Operating lease charges: minimum lease payments	**6,953**	5,740
Net loss on disposal of plant and equipment	**12**	487
Net foreign exchange loss	**500**	747
Cost of inventories	**76,634**	77,049

* Of the auditors' remuneration for other services of $288,000 recognised during the year ended 31 December 2016, $280,000 was rendered for the rights issue and was deducted against share premium.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Taxation in the consolidated statement of profit or loss represents:

	2017	2016
	$'000	*$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**2,212**	–
Over-provision in respect of prior years	**(19)**	(436)
	2,193	(436)
Current tax – Philippines Income Tax		
Provision for the year	**23**	100
Current tax – Other jurisdictions		
Provision for the year	**71**	107
Under-provision in respect of prior years	**–**	165
	71	272
Deferred tax		
Origination and reversal of temporary differences	**(1,523)**	(1,956)
	764	(2,020)

Notes:

(i) The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

(ii) The provision for Philippines Income Tax for 2017 is calculated at 30% (2016: 30%) of the estimated taxable income or 2% (2016: 2%) on gross income incurred for the year, whichever is higher, in accordance with the National Internal Revenue Code of the Philippines.

(iii) In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance notes, the statutory income tax rate applicable to the Company's subsidiaries in the PRC is 25%, except for the following companies:

(a) Logyi Limited ("Logyi")

Logyi is granted a tax holiday of two-year tax exemption followed by three-year 50% tax deduction starting from 2013. As a result, Logyi was exempted from corporate income tax for 2013 and 2014, and is subject to corporate income tax at 12.5% from 2015 to 2017 and at 25% from 2018 onwards.

(b) ACS Technologies (Shenzhen) Limited ("ACS Shenzhen")

ACS Shenzhen was granted the "high-technology enterprise" status and enjoys the preferential corporate income tax rate of 15% for three years between 2015 and 2017.

(iv) Taxation for other entities is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

7 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2017	2016
	$'000	*$'000*
Final dividend proposed after the end of the reporting period of nil cent per ordinary share (2016: Nil cent per ordinary share)	**–**	–

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2017	2016
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of nil cent per ordinary share (2016: 1.0 cent per ordinary share)	**–**	2,841

The final dividend approved and paid during 2016 is based on the total number of issued shares at the date of Annual General Meeting.

8 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of $5,689,000 (2016: loss attributable to ordinary equity shareholders of the Company of $18,503,000) and the weighted average of 319,565,000 ordinary shares (2016: 295,202,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2017	2016
	'000	*'000*
Issued ordinary shares at 1 January	**319,565**	284,058
Effect of rights issue	**–**	11,144
Weighted average number of ordinary shares at 31 December	**319,565**	295,202

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share for the year ended 31 December 2017 and 2016 are the same as the basic earnings/(loss) per share as there are no dilutive potential ordinary shares.

9 PLANT AND EQUIPMENT

During the year ended 31 December 2017, the Group acquired items of plant and equipment in aggregate of $2,815,000 (2016: $2,495,000), which primarily consisted of leasehold improvements, furniture and fixtures, computer and office equipment and mould amounted to $719,000 (2016: $45,000), $315,000 (2016: $nil), $1,259,000 (2016: $1,217,000) and $522,000 (2016: $1,233,000) respectively.

10 INTANGIBLE ASSETS

For the year ended 31 December 2017, additions to intangible assets amounting to $10,766,000 (2016: $11,663,000) comprised development costs.

11 TRADE AND OTHER RECEIVABLES

	2017	2016
	$'000	*$'000*
Trade receivables	**50,925**	48,335
Less: Allowance for doubtful debts	**(3,120)**	(327)
	47,805	48,008
Other receivables	**1,982**	862
Less: Allowance for doubtful debts	**–**	–
	1,982	862
Amount due from a joint venture	**2,740**	2,862
Less: Impairment loss	**(1,075)**	–
	1,665	2,862
Amount due from immediate holding company	**475**	–
Amounts due from fellow subsidiaries	**215**	–
Prepayments	**2,054**	3,268
Deposits paid	**3,548**	1,644
	57,744	56,644

Included in trade receivables is an amount due from a fellow subsidiary of $16,000,000 (2016: $nil). The amount is unsecured, interest free and recoverable under normal trade terms.

The amount of the Group's other receivables, deposits and prepayments expected to be recovered or recognised as expense after more than one year is $1,135,000 (2016: $301,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	2017	2016
	$'000	*$'000*
Within 1 month	**29,494**	17,650
1 to 2 months	**3,553**	5,647
2 to 3 months	**646**	2,695
3 to 12 months	**1,514**	1,090
Over 1 year	**12,598**	20,926
	47,805	48,008

Trade receivables are generally due within 7 days to 3 months from the date of billing. Trade receivables in relation to sales of software and sales under solution business are due according to respective payment terms, which may exceed 3 months.

(b) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly.

The movement in the allowance for doubtful debts during the year is as follows:

	Trade receivables		**Other receivables**	
	2017	2016	**2017**	2016
	$'000	*$'000*	***$'000***	*$'000*
At 1 January	**327**	630	**–**	61
Provision for impairment losses	**3,638**	2,953	**43**	438
Uncollectable amounts written off	**(845)**	(3,256)	**(43)**	(499)
At 31 December	**3,120**	327	**–**	–

At 31 December 2017, the Group's trade receivables of $8,039,000 (2016: $327,000) and other receivables of $nil (2016: $nil) were individually determined to be impaired. The individually impaired receivables are related to customers and other debtors that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $3,120,000 (2016: $327,000) were recognised.

12 TRADE AND OTHER PAYABLES

	2017	2016
	$'000	*$'000*
Trade payables	**10,856**	12,083
Accruals	**9,101**	5,623
Deposits received	**3,991**	1,790
	23,948	19,496

All of the trade and other payables are expected to be settled within one year.

As of the end of the reporting period, the ageing of trade payables, based on the invoice date, is as follows:

	2017	2016
	$'000	*$'000*
Within 1 month	**4,365**	6,400
1 to 3 months	**5,649**	4,958
3 months to 1 year	**80**	309
Over 1 year	**762**	416
	10,856	12,083

DIVIDEND

The Board did not recommend payment of the final dividend, for the year ended 31 December 2017 (2016: Nil).

The declaration, payment and amount of future dividend will be decided by the Board and will depend upon, among other things, the Group's results of operations, capital requirements, cash flows, general financial condition and such other factors as the Board may consider important.

CLOSURE OF REGISTER OF MEMBERS

The Company will publish the information about the date of annual general meeting and the period for closure of register of members for attending the annual general meeting later.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2017, the Group's revenue increased by 20% to HK$182 million (2016: HK$152 million) and recorded a net profit for the year of HK$6 million (2016: net loss for the year of HK$19 million). The Group successfully turned around from loss to profit due to significant improvements in sales and gross profit of its financial technology and smart living business. During 2017, the Group started its financial services and investment business by first providing advisory services to related parties by leveraging its understanding of Hong Kong capital market and the local talent pool. This new operating segment also made positive contribution to the Group's financial results. The provision of advisory services prepared the Group for further expansion into investment in technology related business, asset management and related operations. The basic earnings per share for the year was HK1.780 cents (2016: losses of HK6.268 cents).

Revenue

The Group's revenue for the year ended 31 December 2017 significantly increased by 20% compared to the previous year, which was contributed by both business lines of the Group. Revenue from smart card related products and services under financial technology and smart living business increased by 9% from HK$152 million in 2016 to HK$166 million in 2017 due to market recovery. During 2017, the Group launched an automatic fare collection ("AFC") project for public transport in the Republic of Fiji ("Fiji") by providing an integrated solution with both software and hardware. This project is the largest single project for 2017 with a revenue contribution of over HK$24 million to the Group. Details of the project are set out in the business review section.

During 2017, the Group started its financial services and investment business by providing advisory services to HNA Technology Group Co., Ltd.* (海航科技集團有限公司) ("HNA Tech Group"), a subsidiary of HNA Group Co., Ltd.* (海航集團有限公司) ("HNA Group"), the controlling shareholder of the Company. For the year ended 31 December 2017, the Group completed the two projects specified in the mandate dated 2 November 2017 entered into between HNA Tech Group and a subsidiary of the Group, and recorded a service income of HK$16 million. Details of the transaction are set out in the business review section.

Improving Margin

The Group improved its gross profit margin from 49% in 2016 to 57% in 2017, which was mainly due to the high gross profit margin of financial services and investment business (95%). Supported by the change in sales mix, gross profit margin of smart card and related products for 2017 also increased to 53%. In the past, the Group relied on several system integrators to market its hardware overseas, such hardware only sales usually resulted in lower margins and hindered the Group's effort in improving its margins. During 2017, the Group completed its integrated solution project in Fiji, which accounting for a considerable portion of the total revenue of the Group, and with a higher margin for the software component. As a result, the Group's gross profit margin increased.

* *For identification only*

Expenses and Impairment

Total expenses for 2017 increased by 5% compared to the previous year (2017: HK$98 million; 2016: HK$93 million). Such increase was mainly contributed by the new financial services and investment business and head office and corporate expenses.

For the financial technology and smart living business, total expenses decreased by 14% (2017: HK$76 million; 2016: HK$88 million) as a result of cost saving. In 2016, its operation was restructured to consolidate certain research and development functions to enhance operations and improve efficiency. Such restructuring was completed during 2016 and successfully lowered staff cost and office overheads in 2017. The decrease in expenses also contributed by a decrease in amortisation of development costs. Certain products had already been fully amortised in previous year while several significant new products were still under development and had not yet commenced amortisation.

Impairment losses on trade and other receivables and goodwill amounting to HK$5 million and HK$1 million respectively were recognised for the year ended 31 December 2017. The trade receivables for which impairment was provided for relate to a project suffering from delay that management assessed the collectability of the whole amount to be doubtful. During 2017, management confirmed its business plan over the smart card and related products business in the PRC market to focus on hardware sales in future. Accordingly, goodwill arisen from acquisition of business assets in relation to AFC solutions and other applications in the PRC market in prior year was impaired.

Total expenses for financial services and investment business of approximately HK$10 million comprised mainly of staff costs, consultancy fee and office overhead.

Head office and corporate expense increased by HK$7 million compared to the previous year (2017: HK$12 million; 2016: HK$5 million). Increment was contributed by increases in director remuneration and legal fees. During 2017, significant, non-recurring legal and professional fees were incurred by the Company for the preparation of a composite document relating to the unconditional mandatory cash offer and circulars for the change of company name and continuing connected transaction.

Statement of Financial Position

Plant and equipment maintained at around HK$5 million in both years, because addition during 2017 was offset by depreciation. Intangible assets increased from HK$45 million to HK$47 million as at 31 December 2017, as mentioned previously, several significant new products were still under development as at 31 December 2017 that significant development costs had been capitalised under these products.

The inventories increased from HK$30 million as at 31 December 2016 to HK$38 million as at 31 December 2017. As at 31 December 2016, management intentionally controlled inventory balances due to the decrease in large orders in 2016. With satisfactory recovery of sales performance in 2017, certain parts and finished goods were stocked up towards the end of 2017 to prepare for the upcoming orders in early 2018.

There were no significant changes in trade and other receivables. As at 31 December 2017, trade receivables arising from financial services and investment business of HK$16 million (2016: Nil) represented the unsettled advisory service fee from HNA Tech Group. Trade receivables arising from financial technology and smart living decreased significantly from HK$48 million as at 31 December 2016 to HK$32 million as at 31 December 2017, which was in line with the decrease in sales in the last quarter of 2017 when compared to the same period in 2016. During 2016, overall sales performance was underwhelming but the market started to recover in the second half of the year. The significant pick-up in sales in the last quarter of 2016 resulted in the higher trade receivables balance as at 31 December 2016. The impairment losses on trade receivables of HK$3 million recognised for the year ended 31 December 2017 also contributed to the decrease in trade receivable balances as at 31 December 2017.

Trade and other payables increased from HK$19 million as at 31 December 2016 to HK$24 million as at 31 December 2017. This was mainly attributable to the increase in accrued staff bonus and deposit received for upcoming orders in early 2018.

Bank loans outstanding at 31 December 2016 were already wholly repaid. Due to the change in controlling shareholder in January 2017, several banking facilities were terminated by respective bankers. As a result, the Group repaid respective bank loans.

BUSINESS REVIEW

In 2017, shareholding structure of the Group changed that HNA EcoTech Pioneer Acquisition, a subsidiary of HNA Group, became the controlling shareholder of the Company on 13 January 2017 with a 75% shareholding as at 31 December 2017. After the change in controlling shareholder, the Group has continued with its existing businesses and developed a new operation during 2017, the financial services and investment business.

Both operations recorded a profit in 2017, the Group successfully achieved a profit turnaround in 2017 with a net profit of HK$6 million. The Group has no intention to dispose of any existing business and will keep exploring other business opportunities such as acquisitions of or investments in assets and/or business divestment and fund-raising, with a view to enhancing its overall growth and future development.

Financial Technology and Smart Living

Focus on end-to-end solutions

During 2017, financial technology and smart living segment mainly included smart card and related products business and the Group made strides with its AFC business. In 2017, the technologies of Advanced Card Systems Limited and TaptoPay Limited ("TaptoPay"), wholly owned subsidiaries of the Group, were well selected for various AFC projects in the United States, Fiji and the Philippines among others. In the United States, our bus validator was selected for integration into AFC projects in major cities included San Francisco and New York.

During the year, TaptoPay was contracted with by Vodafone Fiji Limited to be the solution provider for a new AFC project in Fiji. Under this project, TaptoPay implemented a transportation fare card used in Fiji for buses, the major public mode of transportation of the country. Fiji has a population of around a million and over 1,700 buses. TaptoPay is responsible for delivering the end-to-end solutions. The Fiji government expects this AFC systems can improve the revenue collection and cash flows for the bus operators and the government. At the same time, it can provide greater transparency and control over targeting, coverage and distribution of the transport assistance/subsidy to the students, the pensioners, the senior citizens and the disabled citizens/residents. Therefore, after the launching of the project in August 2017, it is possible that the application will further extend to other modes of transportation.

In 2018, TaptoPay aims to further its services in Fiji, and expand its reach to other Pacific Islands, such as Independent State of Papua New Guinea.

In the Philippines, TaptoPay is slated to provide an end-to-end AFC system for the upcoming Jeepney modernisation program. The Jeepney is a prevalent form of mass transportation in the country. However citing environmental, traffic, and efficiency concerns, the government decided to modernise this form of public transport. The Group has also provided an end-to-end AFC system for an emerging economic hub in the southern area of the same archipelago.

Moving forward, the Group will be allotting more focus towards providing end-to-end solutions, instead of providing hardware for integration into third-party solutions. Such solutions are expected to be beyond AFC – encompassing payment, ticketing systems, fleet management systems, passenger information display systems, on-bus security systems and other applications.

Products launched

During the year, the Group released two main products. These two products fall under the mobile card reader and smart card product lines.

Mobile card readers – ACR3901T-W1 Secure Bluetooth Contact Card Reader

The ACR3901T-W1 Secure Bluetooth® SIM-Sized Contact Card Reader uses a Bluetooth® Smart interface to wirelessly facilitate transactions using SIM-sized contact cards.

ACR3901T-W1 supports ISO 7816 smart cards, microprocessor cards with T=0 and T=1 protocol, and common memory cards. It has a read/write speed of up to 600 Kbps. In addition to its Bluetooth® Smart interface (also known as Bluetooth 4.0), the reader has a USB full speed interface. It is compatible with both computers or mobile devices. Because of its wide-range support and firmware upgradeability, it is very cost-efficient.

Smart cards – ACOSJ-P PBOC 3.0 DC/EC Card

ACOSJ-P PBOC 3.0 DC/EC card is a Java-powered cryptographic smart card solution compliant with the GlobalPlatform Basic Financial Configuration.

It comes preloaded with a PBOC 3.0-certified applet, making it especially suited for e-banking and e-payment. PBOC 3.0 certification guarantees that ACOSJ-P supports international cryptographic algorithms and complies with the UnionPay standard. It is also QPBOC-compliant, guaranteeing that it further speed up contactless transactions.

ACOSJ-P is suitable for debit or credit applications, and low-value electronic cash (EC) transfer, among others. Its range of certifications makes it conducive to open-loop systems, which expand partnership opportunities for acquirers, and simplify payment processes for end users. ACOSJ-P has contact, contactless, and dual interface options. It can house multiple applications, and has powerful cryptographic capabilities to ensure that it fully protects such applications.

Events and awards

The Group remains active in industry activities. In 2017, it participated in several key industry events such as Securing Federal Identity 2017 in Washington D.C., the United States. This event highly focused on the future of the federal government of the United States policies and technology developments for securing federal identity and access control of facilities and network systems. Experts from the federal government and the security industry filled the conference agenda and exhibition area to present the future direction of the government's efforts to manage identities and control access across all federal agencies. Our showcase were held to allow government attendees to visit and learn more about our innovative identity products and services enabling secure federal identities today and in the future.

In addition, Advanced Card Systems Limited was recognised in the recently concluded APAC Insider Awards. It received the Award for Excellence in Card and Reader Technologies & Best Environmentally Friendly Electronics and IT Firm. The awards program was organised by APAC Insider Magazine, which covers businesses all over Asia-Pacific. APAC Insider Awards is an annual program that aims to recognise businesses which have "achieved incredible results and helped rewrite their industry's rulebook." Winners are evaluated by a panel of judges who look at a nominated company's performance over the past twelve months. The judging process also takes into account voting among industry peers, as well as research undertaken by APAC Insider Magazine about the nominees.

Financial Services and Investment

On 1 August 2017, the Company announced its plan to develop and engage in the business of investment in and asset management of technology-related business, the financial services and investment business. The Company believes that this operation will enable the Group to expand its business portfolio, diversify its income source and possibly enhance its financial performance. The Group started this operation during the year by recruiting qualified and experienced staff. At the initial stage of the development of this operation, the Group only provides consultancy and advisory services as part of this new operation.

During the year, the Group provided advisory services to HNA Tech Group as a continuing connected transaction and recognised income of HK$16 million. The Directors believes that the Group can leverage the know-how and expertise of HNA Tech Group in the technology-related business to expand its financial service and investment business and the provision of advisory service to technology companies, allowing the Group to optimise the utilisation of its human resources, build up its customer portfolio and keep abreast with the market trend for technology related business. The Group is also looking for opportunities to provide similar advisory services to independent third parties. Due to this advisory income, a segment profit was recognised and improved profitability of the Group as a whole, notwithstanding that the new operation is at an infant stage.

PROSPECTS

Financial Services and Investment

Apart from consultancy and advisory services, the Group also plans to expand and focus on asset management for which the Group intends to manage funds, and to offer funds to the professional investors, details will be finalised at a later stage.

The Group has begun to draw its strategic layout in the business of asset management, and is currently applying for relevant licenses of regulated activities with the Securities and Futures Commission ("SFC") to perform future operations. According to the SFC, total managed assets in Hong Kong increased by 5.2% from the end of 2015 to HK$18,293 billion as of 31 December 2016. Obtaining the license for asset management constitutes a pivotal part of the Group's strategic positioning to expand this business. We intend to capitalise on the expertise and enriched experience in the technology industry of the Group and its controlling shareholder, coupled with the strengths in the forms of talent pool and capital liquidity of Hong Kong capital market, to develop our financial services and investment business for tech-related assets, thus creating a rapid-developing business growth engine with better margins which brings synergistic effect to the existing smart card operation.

According to the SFC, overseas investors continue to be a major capital source for asset management segment in Hong Kong. In 2016, capital fund from overseas investors accounted for 66.3% of the total managed assets in Hong Kong. The predominant background of HNA Group in terms of internationalisation will bolster the Group's asset management business. The Group and its controlling shareholder have extended footprints, investments and experience in various tech asset fields, including cloud operation, big data, supply chain and IT, data consulting and service, smart manufacturing, and other new technologies.

We are devoted to forge a combination of the two aforementioned strengths, with a view to fostering a stable and rapid development of the technology-related financial service and investment business.

Financial Technology and Smart Living

For future, the Group is looking forward to explore and develop different business related to financial technology (Fintech). The Group expects to launch two core Fintech products to facilitate this direction. These 2 new products include:

AMR220-C1 Secure Bluetooth® mPOS Reader

AMR220-C1mPOS is an ultra-portable device designed to work with mobile devices (smartphone or tablet) running on Android™, iOS, Windows®, Linux®, and MAC OS®. AMR220 mPOS Reader can be easily integrated with any mPOS systems available in the market. Eventually, any smartphone or tablet can be transformed into a Point of Sales terminal. mPOS system has low infrastructure cost mPOS solutions also provide the merchant with flexibility, payment security and safe transaction processes.

ACR330 bus validator

ACR330 is a EMV certified bus validator supporting credit and debit cards, including EMV standard, closed-loop payment networks, contactless or NFC technologies, e-wallets, Applepay and QR code (Wechat and Alipay) payment.

The Group believes that the above products can facilitate the Group to expand its business to mobile payment, internet finance and other related business in the future.

Except for financial technology, the Group will also expend its smart living business. Started from 2017, more focus was put on bus fleet management systems and integrated on-bus security systems. Except the current bus payment system, most of our current customers are looking for a turnkey solution to increase the efficiency and productivity of the bus operation as well as to enhance the security level to prevent theft and violence inside the public bus. It is believed that there is a strong synergy if TaptoPay is able to provide a total solution with fleet management and surveillance system together with its existing well-proven bus payment systems as a one-stop shop to fulfil all of the requirements from the bus operators.

One Belt and One Road Initiative ("BRI")

In the next 3 years, the focus of financial technology and smart living business will follow the BRI proposed by the PRC government. The BRI is covering more than 68 countries and is expected to bridge the 'infrastructure gap' and thus accelerates economic growth across the Asia Pacific area and Central and Eastern Europe.

World Pensions Council experts estimate that Asia excluding China will need up to US$900 billion of infrastructure investments per year during the next 10 years, mostly in debt instruments. They conclude that current infrastructure spending on the continent is insufficient by 50%. Hence we believe the demand of financial technology and smart living related products are increasing in these 68 countries.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2017, the Group's cash and cash equivalents amounted to HK$30 million (31 December 2016: HK$41 million). During the year, the Group repaid all outstanding bank borrowings, resulting in nil balance of bank borrowings as at 31 December 2017. While as at 31 December 2016, balance of bank borrowings was HK$14 million and the gearing ratio, being the total interest bearing debts over the total equity, was 0.10. Net asset value as at 31 December 2017 was HK$154 million (31 December 2016: HK$147 million).

The Group's equity capital and the cash generated from operating activities, has been applied to fund its working capital and other operational needs. During the year, the Group recorded net cash inflow in operating activities of HK$17 million (2016: HK$11 million), the amount increased as a result of increase in operating profit. The Group maintained a positive cashflow from operating activities as its profit from operations before interest, tax, depreciation, amortisation and impairment loss on intangible assets (EBITDA) of the Group for 2017 amounted to HK$20 million (2016: loss of HK$1 million). The Group recorded net cash outflow in investing activities of HK$13 million (2016: HK$14 million) during 2017. Net cash outflow was stable since capital expenditure on development projects maintained at similar level in both 2016 and 2017. The Group recorded net cash outflow in financing activities of HK$14 million in 2017 (2016: inflow of HK$14 million), and inflow was recorded in 2016 as a net proceeds of HK$39 million from shares issued under rights issue was received. In 2017, the Group settled all outstanding bank loans which amounted to around HK$14 million.

DISPOSALS AND ACQUISITIONS

During the year ended 31 December 2017, the Group did not have any material disposals or investments of subsidiaries and affiliated companies.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in HK$, Philippine Pesos, US$ and Renminbi. As HK$ is pegged to US$, exchange risk arising from US$ does not have significant financial impact to the Group. The Group also enters into foreign exchange hedging transactions from time to time to manage its currency risk exposure, as at 31 December 2017, no related hedge was made by the Group (31 December 2016: Nil).

Under foreign exchange hedging policy of the Group, the Group only hedges its foreign exchange exposures in sales and purchases by entering into forward contracts. Under no circumstances would the Group enter into foreign exchange hedging transactions exceeding the aggregate amount of all trade receivables and purchase orders received from customers in the relevant foreign currency nor for speculative purposes.

PLEDGE OF ASSETS

As at 31 December 2017, the Group did not pledge any of its material assets.

CONTINGENT LIABILITIES

As at 31 December 2017, the Company had no outstanding corporate guarantee (31 December 2016: HK$80 million, plus accrued interest thereon, to banks in respect of banking facilities granted to its major subsidiaries). As at 31 December 2017, the Group had no banking facilities. Save as disclosed herein, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had 205 full time employees. Staff costs recognised in profit or loss amounted to HK$49 million (2016: HK$49 million). Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience, and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Based on the information available to the Company and within the knowledge and belief of the directors of the Company, none of the directors of the Company have any interests in a business which competes or may compete with the business of the Group during the year.

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

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

CORPORATE GOVERNANCE CODE

During the year, the Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. Saved as disclosed below, the Directors are of the opinion that the Company has compiled with the code provisions set out in the CG Code during the year ended 31 December 2017.

On 31 March 2017, Mr. Lo Kar Chun, SBS, JP tendered his resignation as an independent non-executive Director, a member and the chairman of the remuneration committee and a member of each of the audit committee and the nomination committee with effect from 1 April 2017. On 27 June 2017, Mr. Guo Dan was appointed as an independent non-executive Director and a member of the audit committee. On 1 September 2017, Mr. Yim Kai Pung tendered his resignation as an independent non-executive Director, a member and the chairman of each of the audit committee and the nomination committee and a member of the remuneration committee with effect from 30 September 2017.

As a result of the above, the Company is not in compliance with Rule 3.10 and 3.10A of the Listing Rules with regard to the composition of the Board and with Rule 3.21 of the Listing Rules with regard to the composition of the audit committee during the period from 1 April 2017 to 26 June 2017 and from 30 September 2017 to 21 December 2017. Following the appointment of Dr. Lin Tat Pang on 22 December 2017 as an independent non-executive Director and a member and the chairman of the audit committee, the Company has complied with Rules 3.10 and 3.10A of the Listing Rules in relation to the composition of the Board and Rule 3.21 of the Listing Rules with regard to the composition of the audit committee.

Details of the Company's corporate governance principles and processes will be available in the 2017 Annual Report.

SUFFICIENCY OF PUBLIC FLOAT

References are made to the announcement dated 31 March 2017, 19 April 2017 and 21 April 2017 issued by the Company in relation to the public float of the Company.

As stated in the mentioned announcements, immediately after the close of the mandatory unconditional cash offer, the Company could not satisfy the minimum public float requirement of 25% as set out in Rule 8.08(1)(a) of the Listing Rules. An application was made to the Stock Exchange for a waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a period of three months from 22 March 2017 to 21 June 2017. On 31 March 2017, the Stock Exchange has granted the Company a waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for the period from 22 March 2017 to 21 June 2017.

On 21 April 2017, the Company has been informed by the controlling shareholder, that in order to assist the Company to restore its public float in compliance with Rule 8.08(1)(a) of the Listing Rules, the controlling shareholder has disposed of 53,193,488 shares (representing approximately 16.65% of the total issued share capital of the Company), to independent third parties through AMC Wanhai Securities Limited (the "Disposal"). Completion of the Disposal took place on 21 April 2017.

To the best of the knowledge of the Directors having made all reasonable enquiries, immediately upon completion of the Disposal, 79,891,223 shares, representing 25% of the total issued share capital of the Company, were held by the public. Accordingly, the minimum public float of 25% of the total issued share capital of the Company as required under Rule 8.08(1)(a) of the Listing Rules has been restored.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely Mr. Guo Dan, Ms. Kaung Cheng Xi Dawn and Dr. Lin Tat Pang.

The audit committee has reviewed the annual results of the Group for the year ended 31 December 2017 with the management and recommended its adoption by the Board.

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the auditor.

ANNUAL REPORT AND FURTHER INFORMATION

A copy of this announcement can be found on the Company's website (www.hnatechinv.com) and the Stock Exchange's website (www.hkexnews.hk). The 2017 Annual Report will be despatched to all shareholders and made available on the respective website of the Company and the Stock Exchange in due course.

By order of the Board
HNA Technology Investments Holdings Limited
TONG Fu
Chairman

Hong Kong, 8 March 2018

As at the date of this announcement, the Board comprises five executive directors, namely Mr. Tong Fu, Mr. Wang Hao, Mr. Peng Fang, Mr. Zhang Tao and Mr. Wong Chi Ho, and three independent non-executive directors, namely Mr. Guo Dan, Ms. Kaung Cheng Xi Dawn and Dr. Lin Tat Pang.