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## **KUANGCHI SCIENCE LIMITED**

**光啟科學有限公司**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 439)

### **POSITIVE PROFIT ALERT**

This announcement is made by KuangChi Science Limited (the “Company” and together with its subsidiaries, the “Group”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong).

The board of directors (the “Board”) of the Company wishes to inform the shareholders of the Company (“Shareholders”) and potential investors that based on the preliminary review and analysis of the latest available unaudited consolidated management accounts of the Group, it is expected that the Group would record profit for the year ended 31 December 2015 while loss was recorded for the nine months period ended 31 December 2014, and the Group is expected to record a turnaround from loss to profit for the year ended 31 December 2015.

The recording of the Group’s profit is mainly attributed to the significant increase of the segmental profit of the Group’s novel space services to approximately HK\$210,000,000 in 2015. Taking into account factors such as allocation of relevant expenses at the Group level, it is expected that the Group’s overall profit for the year ended 31 December 2015 would not be less than 60% of the said segmental profit.

The information as contained in this announcement is only based on the preliminary review by the Company’s management on the unaudited consolidated management accounts of the Group and the information currently available, and is not based on any information audited by the auditor of the Company. The annual results of the Group for the year 2015 is expected to be announced in late March 2016.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

## **TRADING UPDATE**

References are made to the announcements of the Company dated 25 March 2015, 31 March 2015 and 18 June 2015 (the “Announcements”) in respect of, among other things, the subscription of 41,958,041 new Longsheng Shares pursuant to the KC Subscription Agreement. Capitalised terms used herein shall have the same meanings as defined in the Announcements unless the context requires otherwise.

In response to a feedback request of the CSRC, on 5 February 2016 (before trading hours), Longsheng published a supplemental announcement (the “Longsheng Announcement”) on the website of the Shenzhen Stock Exchange ([www.szse.cn](http://www.szse.cn)) in respect of the KC Subscription Agreement. The Longsheng Announcement contains information including the update on the business operations and development of the Group, and certain undisclosed financial information. Please be noted that such financial information is expressed in Renminbi and has been audited by the PRC auditor of the subsidiaries of the Company, but not yet audited by Deloitte Touche Tohmatsu, the auditor of the Company.

To ensure all investors receive consistent information, those information regarding the Group as disclosed in the Longsheng Announcement is extracted and attached to this announcement.

By order of the Board  
**KuangChi Science Limited**  
**Dr. Liu Ruopeng**  
*Chairman and Executive Director*

Hong Kong, 5 February 2016

*As at the date of this announcement, the Board comprises four executive Directors, namely Dr. Liu Ruopeng, Dr. Zhang Yangyang, Dr. Luan Lin and Mr. Ko Chun Shun, Johnson; and three independent non-executive Directors, namely Dr. Liu Jun, Dr. Wong Kai Kit and Ms. Zong Nan.*

Attachment to the announcement of KuangChi Science Limited in respect of positive profit alert and trading update dated 5 February 2016#:

**1) Novel Space Business**

**Main operating entity**

KuangChi Science Limited is the main operating entity engaging in the novel space business for KuangChi Group. Its general information is set out below:

Company name:	KuangChi Science Limited
Stock code:	00439.HK
Office address:	No. 16 Science Park West Avenue, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong
Registered capital:	HK\$73,166,700
Type of enterprise:	Limited liability company
Time of establishment:	January 1992
Business scope:	Space services and other innovative technology business; manufacture and trading of paper packaging products and paper gift items and printing of paper promotional materials; and property investment segment.

## 2) State of affairs of the business

KuangChi Science, formerly known as Climax International Company Limited, a company listed on the Main Board of the Hong Kong Stock Exchange in March 1992, was principally engaged in the paper products business. In August 2014, New Horizon Wireless Technology (BVI), a member under KuangChi Group, acquired the control of Climax International Company Limited by way of subscription of its new shares. Subsequently, Climax International Company Limited was renamed as KuangChi Science Limited. Since then, it has served as a platform for the development of novel space business and become the main operating entity engaging in the novel space business with industrial operations. Operating performance of KuangChi Science in terms of the novel space business for 2014 and 2015 is set out below:

Unit: Ten thousand RMB

Item	2015	2014
Operating revenue	36,427.03	735.76
Operating profit	19,744.23	-5,298.48
Gross profit	19,744.23	-5,298.48
Net profit	17,465.77	-5,298.48

*Note 1:* The industrial operation of KuangChi Science's novel space business is mainly conducted through its controlled subsidiaries, Shenzhen Kuangchi Space Technology Company Limited and 深圳光啟夢想科技有限公司 (Shenzhen KuangChi Dream Technology Limited). The above financial data is derived by combining the financial data of these subsidiaries for each year. Both of the financial data of Kuangchi Space Technology Company Limited for 2014 and 2015 have been audited. Since it was established on 28 November 2014, 深圳光啟夢想科技有限公司 (Shenzhen KuangChi Dream Technology Limited) has not commenced operation in 2014 and thus, the financial data for the year was not audited individually, its financial data for 2015 has been audited.

*Note 2:* The significant improvement in the results of the novel space business for 2015 was mainly due to the fact that the core products, namely the "Cloud" platform and the "Traveller" commercial near space platform, completed their test launches and commercial testings with industrialised sales commenced in 2015.

### **3) Business development**

Leveraging on the solid foundation of KuangChi Group in metamaterial technologies, KuangChi Science is committed to intensively boost the technological R&D, product production and promotion of industrialisation for the novel space business. In February and June of 2015, KuangChi Science has respectively conducted the first flight test of its core products, namely the “Cloud” platform and the “Traveller” commercial near space platform. The metamaterial technologies deployed allow these products to be structured with lightweight, high-strength, high-barrier, durable, rubbing-resistant and high load ratio properties, overcoming the critical technical barrier of the traditional aerostats that are required to float for a prolonged period of time, and filling the market gap of the provision of data and information services through space platform within extensive coverage. Given the outstanding technological capability and satisfactory test result, the “Cloud” platform and the “Traveller” commercial near space platform have caught wide attention from potential customers upon the completion of their test launches. As at the end of 2015, KuangChi Science has entered into a series of supply contracts and strategic cooperation agreements with local governments of or parks in Guangdong Province, Guizhou Province, Hainan Province in respect of these products, with an aggregated contract amount of RMB408 million.

Riding on the healthy industrialisation of the “Cloud” platform and the “Traveller” commercial near space platform, KuangChi Science is expected to realise operating revenue of RMB364 million and net profit of RMB175 million from novel space business for 2015, representing an increase of 4,850.93% and 429.64% compared to last year, respectively.

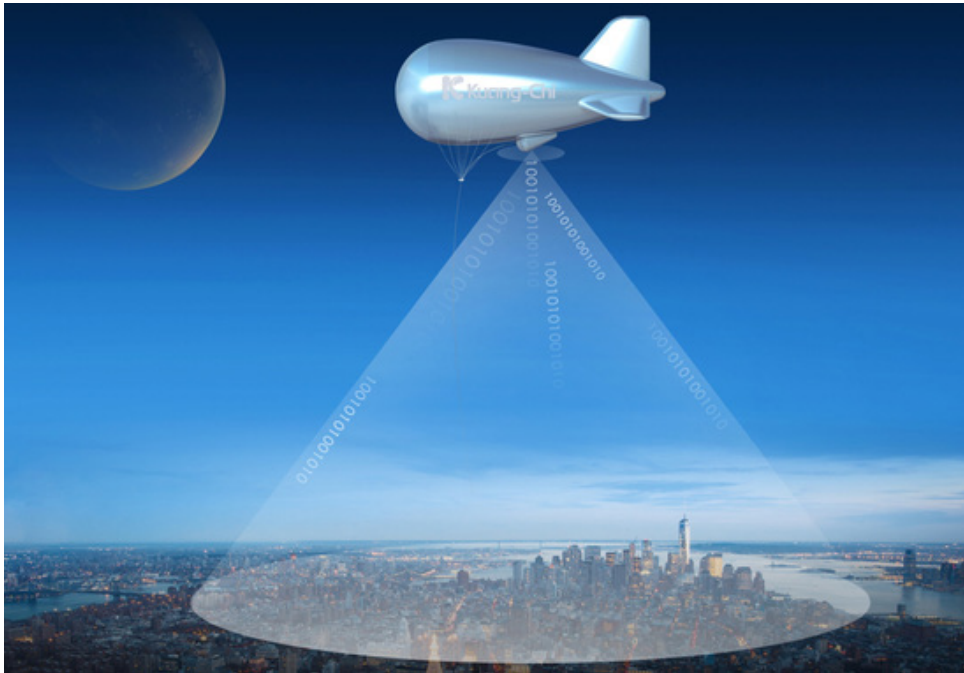
Apart from the “Cloud” platform and the “Traveller” commercial near space platform, KuangChi Science is currently taking active initiatives to accelerate the research and development, production and industrial application of a range of innovative application products for novel space business through proprietary R&D and external acquisitions and mergers.

### **4) Main products and scope of applications**

#### **A. The “Cloud” platform**

The “Cloud” is a cloud platform providing integrated services including communication, internet access, big data collection and analysis. It is characterised by its heavy loading and extensive coverage, as well as precise and efficient information and data detection, collection and transmission, enabling to ensure an important protection of big data services for urban management in the aspects of on-ground optical monitoring, remote sensing, hydrogeological monitoring, traffic safety, wildfire detection, inspection of unauthorised building works, forecast of natural disasters, emergency rescue, intelligent city. In early 2015, KuangChi Science has conducted the test launch and related commercial testings of the “Cloud” and the results of which met expectation in core functions including ground monitoring and maritime big data. Specifically, in terms of maritime surveillance, the coverage of water area has enlarged by 10 times compared to the traditional systems. On 20 December 2015, the emergency version of the “Cloud” was deployed in the emergency rescue of the serious landslide disaster occurred in Guangming New District of Shenzhen. On 28 December 2015, the “Cloud” platform successfully completed its first commercial flight in Dongguan, marking a substantial step of industrialisation towards the application of metamaterial technologies into the novel space sector.

## The “Cloud” platform



### B. The “Traveller” commercial near space platform

The “Traveller” is the first-ever commercial near space platform of the PRC. It flies at high altitude and long endurance. It has properties including high load capacity, high adaptive capability to space environment and high reliability. It is made of novel metamaterials characterised by low-density, high strength, high helium barrier, resistance to UV radiation and anti-ozone erosion. Coupled with advanced flight control strategy, it is able to float in near space for a prolonged period of time. The “Traveller” commercial near space platform flies 20km above sea level with load capacity of thousands kilograms. It can be equipped with facilities for both air-to-ground and air-to-air real-time high-definition monitoring, relay communication, positioning and navigation, near space scientific experiments, manned space tourism, etc.

On 6 June 2015, the first-ever “Traveller” commercial near space platform successfully completed its first flight in Ashburton of New Zealand. After the takeoff, it reached the designed flying altitude of 21,000 metres above sea level within one hour of time and finished the commercial load testings in near space such as automatic identification system (AIS), both air-to-ground and air-to-air monitoring, space environment detection, air-ground high-speed communication and others. The “Traveller” commercial near space platform has a high-speed communication coverage reaching 160,000 square kilometres, and a maximum distance of maritime surveillance exceeding 440 kilometres. Its successful first flight signifies KuangChi Science’s near space exploration technology has ranked top in the world.

## The “Traveller” commercial near space platform

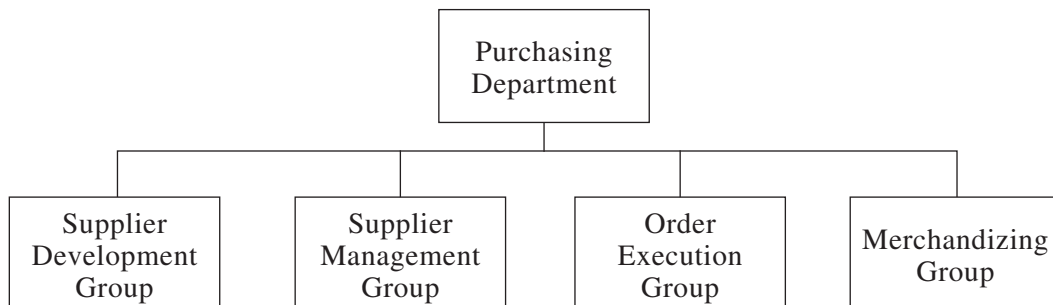


### 5) Business Operation Models

#### A. Purchasing Models

##### 1. Establishment of the Purchasing Department

The organizational structure of the Purchasing Department for novel space technology business is as follows:



**Supplier Development Group:** It is responsible for initial liaison, qualification verification, preliminary cooperation negotiation and other relating matters. It serves also to guarantee comprehensiveness, stability and safety of the supplier channel of novel space technology business.

**Supplier Management Group:** It is responsible for further verification and screening in respect of the supplier list provided by the Supplier Development Group, for maintenance of the cooperation relationship with key suppliers to guarantee overall flow without obstruction of the supplier channel. In the meantime, it keeps a close watch on supplier qualification to ensure general quality of the supplier group.

**Order Execution Group:** It is responsible for giving purchasing instructions, following up execution of purchasing contracts and ensuring efficient conduction of purchasing.

**Merchandizing Group:** It is responsible for organizing bids and tenders, for initiating competitive business negotiation and other purchasing related business activities, and for reasonably devising bidding and tendering procedures and business negotiation flows in accordance with the Company’s supply strategy and positioning.

## 2. Raw Material Purchasing Model

Presently, main products of the novel space technology business are the “Cloud” platform and the “Traveler” near space business platform, and principle raw materials of which include fiber materials, medium membrane, metal constructs, special adhesives, compound wires and cables, etc. The Purchasing Department positions the supply strategy basing on effects on products by raw materials, purchasing scale and substitutiveness of the same, classifies them into key materials, lever materials and conventional materials, and adopts relevant purchasing strategy in the light of different classes of materials during the purchasing process. Specifics of which are listed as follows:

Supply Strategy Positioning	Material Range
key materials	fiber materials, medium membrane, metal constructs, special adhesives, compound wires and cables
lever materials	Other electronic components, metal materials
conventional materials	auxiliary materials

**Key materials:** Key materials generally refer to materials involving greater purchasing amount, higher customization lever and stricter technological standard and material qualification requirement. For them the Purchasing Department would devise the purchasing plan basing first on market situation and then customization demand to purchase such materials from key strategic cooperation partners. First, short-listed suppliers with powerful background and good creditability are invited to enter into strategic cooperation agreements, and ample supply and technological quality and safety are ensured through long-term strategic cooperation, such that customization and purchasing cycles of raw materials are shortened by means of seamless joint of production and sale between enterprises. Second, on the basis of the strategic cooperation agreements, both parties sign framework agreements in periods spanning years or quarters to stipulate purchasing quantity, purchasing prices, purchasing batch, delivery time, technological quality standard, settlement modes and other key considerations for the contracted periods according to customization demand of raw materials. Finally, under the stipulation of the framework agreements, the Purchasing Department will decide the delivery time and the delivery quantity for each batch basing on the actual demand and supply condition and give delivery instructions to suppliers.

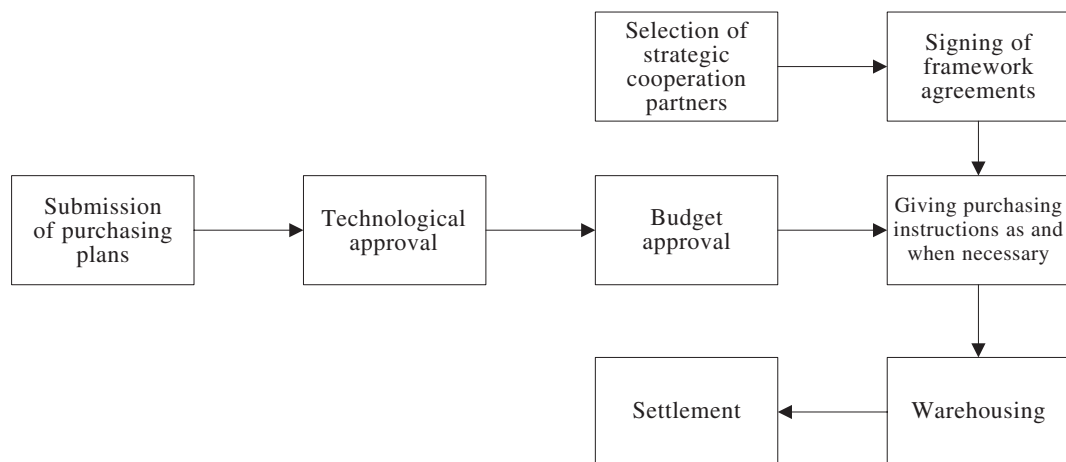


**Lever materials:** Lever materials generally refer to materials involving larger purchasing quantity, higher standardization level, adequate market supply source, ample supply and plenty of production and processing enterprises. Such materials have formed a relatively mature model of supply and sale that their market pricing, supply, transport and quality monitoring have established systems and rules. For them the purchase is conducted on the principle of “lower price for same quantity and quality” (i.e. suppliers offering a lower price are chosen under the condition of same purchasing quantity and quality) according to market practices (such as spot direct purchase, bid and tender, competitive negotiation, etc.).

**Conventional materials:** Conventional materials refer to materials involving smaller purchasing quantity, lower technological standard, loose quality requirement, and ample supply that fluctuation of price of such materials has limited effect on products. For them the purchase is conducted regularly in batches out of considerations of streamlined management and low management costs according to production planning.

### 3. Purchasing Processes

I. *Purchasing processes for key materials are as follows:*



**Submission of purchasing plans:** The Production Department estimates and formulates raw material purchasing plans for the year according to sales planning, order condition, market condition, production condition and historical sales data for that year;

**Technological approval:** The Technological Department verifies category, technological requirement and other standards for raw material involved in those purchasing plans;

**Budget approval:** The Financial Department verifies price, gross amount and other financial indicators involved in those purchasing plans to confirm financial feasibility and reasonability of purchasing plans;

**Selection of strategic cooperation partners:** The Supplier Development Group takes into consideration of factors like strategic positioning of the Company and demand for raw materials, seeks and approaches qualified suppliers on the market to conclude intention negotiations and enter into strategic cooperation agreements to ensure supply safety of raw materials;

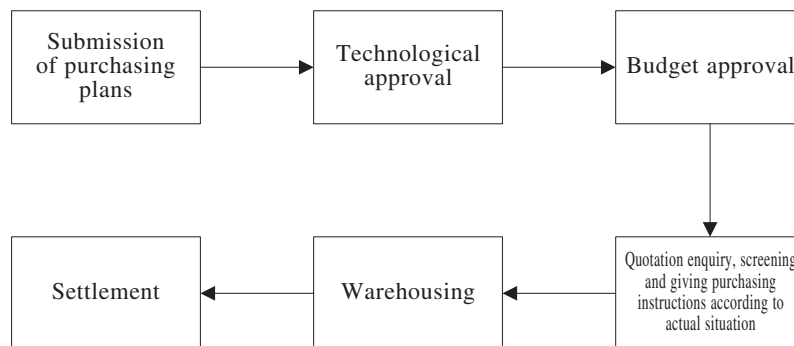
**Signing of framework agreements:** The Supplier Management Group joins hands with the Merchandizing Group to sign framework agreements with suppliers to ascertain gross amount of purchase, unit price and settlement modes and other key considerations;

**Giving purchasing instructions as and when necessary:** The Order Execution Group acts under the stipulation of framework agreements and in the light of market condition and production demand to give delivery instructions to suppliers to ensure stable and timely supply of raw materials;

**Warehousing:** The Order Execution Group works in collaboration with the Production Department to conduct coding, checking before acceptance and warehousing for raw materials;

**Settlement:** The Order Execution Group works in collaboration with the Production Department to submit to the Finance Department reports on acceptance of goods, and the Finance Department makes payment to suppliers according to framework agreements and actual acceptance of goods.

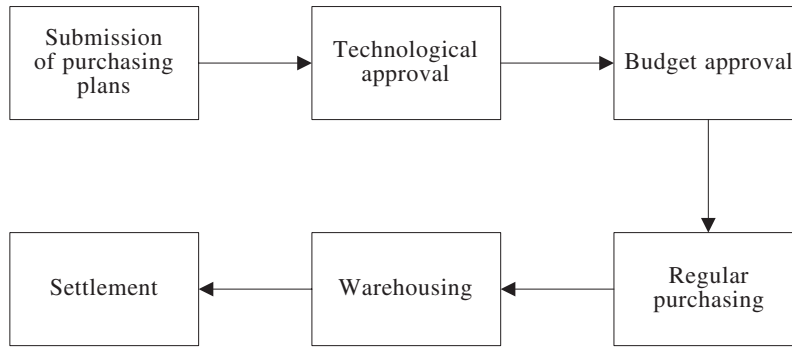
II. *Purchasing processes for lever materials are as follows:*



Work content of processes of “Submission of purchasing plans”, “technological approval”, “budget approval”, “warehousing” and “settlement” in purchasing processes for lever materials are the same as those for key materials.

**Quotation enquiry, screening and giving purchasing instructions according to actual situation:** The Supplier Management Group, the Merchandizing Group and the Order Execution Group collaborate with each other conduct quotation enquiry, screening of suppliers and other tasks basing on prevailing market practices and rules of those raw materials involved, and give purchasing instructions in the light of actual demand and market situation.

III. Purchasing processes for conventional materials are as follows:



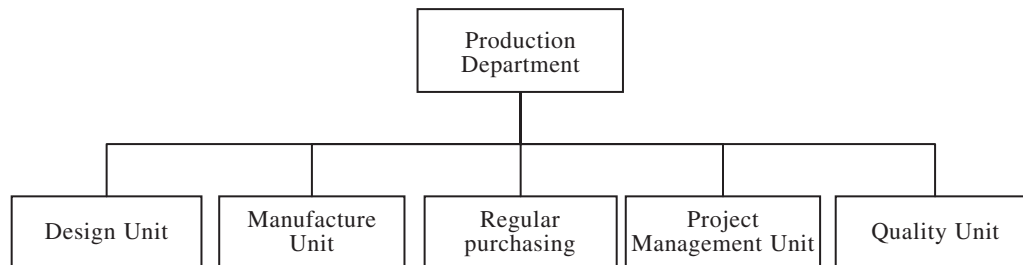
Work content of processes of “Submission of purchasing plans”, “technological approval”, “budget approval”, “warehousing” and “settlement” in purchasing processes for conventional materials are the same as those for key materials.

**Regular purchasing:** The Order Execution Group gives purchasing instructions regularly to suppliers according to the supplier list provided by the Supplier Management Group.

## B. Production Models

### 1. Establishment of the Production Department

The organizational structure of the Production Department for novel space technology business is as follows:



**Design Unit:** It is responsible for product design and project design, and it plays also a role in product development and pre-development;  
Equipment Unit

**Manufacture Unit:** It is responsible for processing and manufacturing of specific project products;

**Project Management Unit:** It is responsible for control of production process to guarantee compliance of flow and joint of production process;

**Equipment Unit:** It is responsible for purchase and introduction of equipment, overall design and planning of production lines, maintenance and periodical upkeep of equipment;

**Quality Unit:** It is responsible for construction of quality system. It serves also to guarantee quality control for all projects and production processes of products.

## 2. Product Production Model

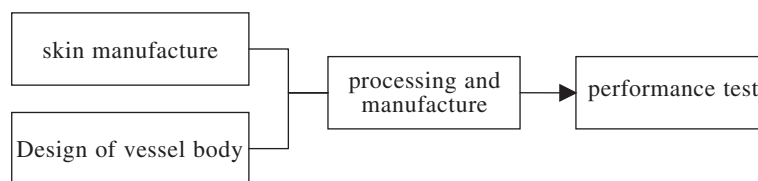
The novel space technology business adopts a production model of “production decided by sales” in view of characteristics of products and the market, under which a production plan is formulated according to orders in hand and sales planning for the year, and appropriate adjustment will be made in consideration of delivery requirement of newly added orders during the year. Products of the novel space technology business are characterized with high products value, high technological content and high customization level. Therefore, KuangChi Science will incorporate customer requirement into accomplishment of self development and design of all sub-system of products, and will formulate production standards for all parts of product according to the master design program. On the basis of accomplishing customized design, core processes are conducted with self-owned production equipment and professionals, while non-core processes are conducted by outsourced production.

Outsourced processes of novel space technology business include technical processes such as skin cutting, construct stamping, riveting, welding, heat-treatment and manufacture of wires and cables. Meantime, the Production Department has established a stringent outsourcing examination system to ensure strict control over outsourcing enterprises and their work quality.

Owing to high quality requirement of products of novel space technology business, the Quality Unit of the Production Department would conduct stringent production technical assessment and quality examination on all product parts. Substandard products detected are fed back timely to the Manufacture Unit, and the Quality Unit will take part in solution of product quality issues.

## 3. Technical Processes

High quality skin constitutes a prerequisite for application of vessel body. Product forming processing involves 4 key major processes, namely skin manufacture, design, processing and manufacture and performance test of vessel body as follows:



**Skin manufacture:** Skin manufacture includes selection and processing of all functional materials and auxiliary materials aiming at producing high performance and high consistency skin material.

**Design of vessel body:** This involves detail design, forming of design blueprint and work proposal in the light of application environment, material performance and task model.

**Processing and manufacture:** This refers to processes involving skin cutting and welding aiming at producing qualified vessel body.

**Performance test:** Performance assessment comprises key steps such as tests on strength, air density and durability, which are accomplished with the help of high precision experimental apparatus to ensure overall quality of product.

## **C. Sales Models**

### **1. Establishment of the Sales Department**

**Marketing Unit:** It is responsible for market investigation and research as well as brand positioning, accomplishment of formulating, executing and advertising of promotion plans.

**Sales Unit:** It is responsible for formulating the task and fee ratio, constructing customer relationship platform according to product characteristics, advising and executing sales activities, and for customer management and customer relationship maintenance and the like.

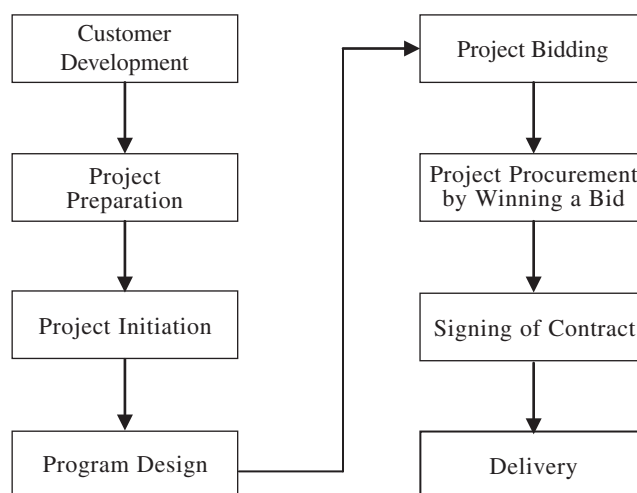
**Delivery Unit:** It is responsible for system installation and calibration in accordance with R&F and design programs.

**After-sales Unit:** It is responsible for daily operation and maintenance of products.

### **2. Product Sales Model**

The novel space technology business is engaged mainly in the sale of the “Cloud” platform at present by way of direct sale owing to the fact that it is of high product value, pioneering innovation, individualized functional requirement and relatively complicated maintenance. The direct sale is conducted by the Marketing Unit for market development, by the Sales Unit for product sales and KuangChi Space Technology and KuangChi Dream, subsidiaries of KuangChi Science, for product production, product delivery, subsequent operation, maintenance and application and development.

### 3. Product Sales Processes



### 6) Components of operating revenue

Operating revenue of the novel space business for the last two years was comprised of:

Unit: Ten thousand RMB

Item	2015	2014
<b>Revenue from principal operations</b>	<b>36,427.03</b>	<b>735.76</b>
Consisting: The “Cloud” platform	34,810.31	–
Novel space technology services	1,616.72	735.76
<b>Revenue from other operations</b>	–	–
<b>Total</b>	<b>36,427.03</b>	<b>735.76</b>

## 7) Production and sales of main products

### A. Production and sales of main products

The production and sales of and utilisation of production capacity by the main products of the novel space business for the last two years were as follows:

Unit: piece

Product type	Measurement unit	2015	2014
The “Cloud” platform	Designed production capacity	4	1
	Production capacity	3	1
	Sales volume	2.8	–
	Utilisation rate of designed production capacity	75%	100%
	Production to sales ratio	93.33%	–

Note: The “Cloud” platform is a kind of customised product. It has relatively long production cycles. Revenue is recognised based on the percentage of completion. The first testing sample of the “Cloud” platform was produced in 2014, which has conducted its first flight in February 2015 and sales commenced after prototyping. As at the end of 2015, 深圳光啟夢想科技有限公司 (Shenzhen KuangChi Dream Technology Limited) has entered into sales contracts with three customers and delivered the production of its first “Cloud” platform. The remaining two “Cloud” platforms is under development with 90% completed. The production is substantially completed. After formation of takeoff site finished by the customers and confirmation of date of takeoff, the products will be ready for delivery.

### B. Supply of raw materials

The purchases of raw materials for the novel space business for the last two years were as follows:

Main raw materials	2015	2014
	Amount (in ten thousand RMB)	Amount (in ten thousand RMB)
Entrusted development	–	4,369.75
Composite cables	–	410.00
Fiber materials	1,386.68	405.96
Subcontracting	1,316.89	–
<b>Total</b>	<b>2,703.58</b>	<b>5,185.71</b>

# This is the English translation of those information regarding the Group as disclosed in the Longsheng Announcement. In case of any inconsistency, the Chinese text shall prevail over the English translation.