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KUANGCHI SCIENCE LIMITED
光 啟 科 學 有 限 公 司

(Incorporated in Bermuda with limited liability)
(Stock Code: 439)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The board of directors (the "Board") of KuangChi Science Limited (the "Company") would like to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 together with the comparative figures for the same period in 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	**2016** *HK$'000*	2015 *HK$'000* (Restated)
Continuing operations			
Revenue	3	**290,492**	279,162
Cost of sales		**(92,046)**	(58,478)
Gross profit		**198,446**	220,684
Other income	4	**55,316**	125,675
Other gains and losses	5	**816,969**	(43,448)
Impairment loss recognised in respect of goodwill	11	**(39,382)**	–
Share of results of associates		**(2,858)**	(654)
Selling and distribution expenses		**(39,975)**	(32,064)
Research and development expenses		**(110,027)**	(110,791)
Administrative expenses		**(136,899)**	(107,757)
Finance costs	6	**(4,126)**	(8,663)
Profit before tax		**737,464**	42,982
Income tax expense	7	**(140,430)**	(14,761)
Profit for the year from continuing operations		**597,034**	28,221
Discontinued operations			
Loss for the year from discontinued operations		**(490)**	(33,205)
Profit (loss) for the year		**596,544**	(4,984)

	NOTES	**2016** *HK$'000*	2015 *HK$'000*
Other comprehensive loss			
Items that may be reclassified subsequently to profit and loss:			
Exchange difference on translating foreign operation		**(46,276)**	(62,090)
Reclassified to profit or loss upon disposal of foreign operation		**(1,088)**	–
Total comprehensive income (expense) for the year		**549,180**	(67,074)
Profit (loss) for the year attributable to owners of the Company:			
– from continuing operations		**664,805**	63,217
– from discontinued operations		**(490)**	(33,205)
Profit for the year attributable to owners of the Company		**664,315**	30,012
Loss for the year attributable to non-controlling interests:			
– from continuing operations		**(67,771)**	(34,996)
– from discontinued operations		**–**	–
Loss for the year attributable to non-controlling interests		**(67,771)**	(34,996)
		596,544	(4,984)
Profit (loss) for the year attributable to:			
Owners of the Company		**664,315**	30,012
Non-controlling interests		**(67,771)**	(34,996)
		596,544	(4,984)
Total comprehensive profit (loss) attributable to:			
Owners of the Company		**619,086**	(30,618)
Non-controlling interests		**(69,906)**	(36,456)
		549,180	(67,074)
Earnings per share	9		
From continuing operations			
Basic (HK cents per share)		**11.34**	1.37
Diluted (HK cents per share)		**10.53**	1.04
From continuing and discontinued operations			
Basic (HK cents per share)		**11.33**	0.65
Diluted (HK cents per share)		**10.53**	0.49

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016

	NOTES	**2016** **HK$'000**	2015 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Plant and equipment		**149,435**	124,477
Goodwill	11	**41,563**	71,746
Other intangible assets	10	**214,527**	147,470
Investment property		**13,800**	13,700
Investment in associates		**33,166**	4,290
Available-for-sale investments		**29,040**	–
Derivative financial assets	12	**798,912**	51,300
Prepaid lease payments		**83,581**	91,749
Deposits paid for acquisition of plant and equipment		**25,634**	31,474
Pledged deposit		**–**	143,280
Loan receivables	15	**21,711**	–
Prepayment for advertising		**5,389**	11,940
		1,416,758	691,426
CURRENT ASSETS			
Prepaid lease payments		**2,204**	2,357
Inventories	13	**149,310**	44,037
Trade and other receivables	14	**522,938**	358,061
Loan receivables	15	**273,989**	–
Income tax recoverable		**2,949**	8,339
Time deposit		**252,005**	125,133
Structured bank deposit		**13,397**	–
Bank balances and cash		**870,558**	1,228,556
		2,087,350	1,766,483
CURRENT LIABILITIES			
Trade and other payables, and deferred revenue	16	**361,520**	120,056
Income tax payable		**23,427**	14,589
Obligations under finance lease – amount due within one year		**–**	233
Bank borrowings		**264,147**	–
Convertible debenture		**6,584**	5,569
		655,678	140,447
NET CURRENT ASSETS		**1,431,672**	1,626,036
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,848,430**	2,317,462

	NOTES	**2016**	2015
		HK$'000	*HK$'000*
NON-CURRENT LIABILITIES			
Bank borrowings		**–**	142,397
Deferred tax liabilities		**118,719**	67
		118,719	142,464
NET ASSETS		**2,729,711**	2,174,998
CAPITAL AND RESERVES			
Share capital – Ordinary shares		**60,894**	57,137
Share capital – Preferred shares		**–**	3,757
Reserves		**2,400,041**	1,861,237
Equity attributable to owners of the Company		**2,460,935**	1,922,131
Non-controlling interest		**268,776**	252,867
TOTAL EQUITY		**2,729,711**	2,174,998

1. GENERAL

The Company is a limited company incorporated in Bermuda as an exempted company and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company, its immediate holding company is New Horizon Wireless Technology Limited which is incorporated in the British Virgin Islands. Its ultimate holding company is Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership which was established in the People's Republic of China. Its ultimate controlling party is Dr. Liu Ruopeng, who is also an executive director of the Company. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of its business is Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are provision of future technology business, manufacturing and trading of paper packaging products and property investment.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

HKFRS 9 ***Financial Instruments***

HKFRS 9 introduces new requirement for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirement for financial assets.

Key requirements of HKFRS 9 that are relevant to the Group is as follows:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investment, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practical to provide a reasonable estimate of that effect until a detail review has been completed.

HKFRS 15 ***Revenue from Contracts with Customers***

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.

Except as described above, the directors of the Company do not expect that the application of the other new and revised HKFRSs in issue but not yet effective will have a material impact on the Group's consolidated financial statements.

3. REVENUE

An analysis of the Group's revenue for the year from continuing operations is as follows:

	2016 HK$'000	2015 HK$'000 (Restated)
Revenue from the sales of the "Cloud" *(note a)*	**284,050**	258,885
Revenue from the maintenance of the "Cloud"	**6,082**	–
Revenue from future technology consultancy services	**–**	19,921
Revenue from rental income *(note b)*	**360**	356
	290,492	279,162

Notes:

(a) The "Cloud" is a flying apparatus platform providing integrated services including communication, internet access, big data collection and analysis.

(b) An analysis of the Group's net rental income from investment properties is as follows:

	2016 HK$'000	2015 HK$'000
Gross rental income	**360**	356
Less: Outgoings (included in cost of sales)	**(13)**	(6)
Net rental income	**347**	350

4. OTHER INCOME

	2016 HK$'000	2015 HK$'000 (Restated)
Continuing operations		
Interest income earned on bank balances and pledged deposit	**12,490**	49,740
Interest income earned on loan receivables *(note 15)*	**2,833**	–
Government subsidy	**35,438**	73,932
Sundry income	**4,555**	2,003
	55,316	125,675

5. OTHER GAINS AND LOSSES

	2016 HK$'000	2015 HK$'000 (Restated)
Continuing operations		
Loss on disposal of plant and equipment	**(737)**	–
Gain on deemed disposal of investment in an associate	**13,181**	–
Gain from change in fair value of investment properties	**100**	600
Impairment loss recognised in respect of investment in an associate	**–**	(6,690)
Loss on change in fair value of derivative financial assets *(note 12)*	**(212,523)**	(663)
Gain on initial recognition of subscription right of Longsheng shares *(note 12)*	**1,021,151**	–
Exchange loss, net	**(4,203)**	(36,695)
	816,969	(43,448)

6. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Interest on:		
Bank borrowings	**3,382**	8,174
Interest on convertible debenture	**744**	489
	4,126	8,663

7. INCOME TAX EXPENSE

	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Current tax		
PRC Enterprise Income Tax	**21,757**	14,715
Hong Kong profits tax	**–**	98
	21,757	14,813
Deferred taxation	**118,673**	(52)
	140,430	14,761

8. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: Nil).

9. EARNINGS PER SHARE

For continuing operations

The calculation of the basic and diluted earnings (loss) per share attributable to the shareholders of the Company is based on the following data:

Earning figures are calculated as follows:

	2016	2015
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the company	**664,315**	30,012
Less: Loss for the year from discontinued operation	**(490)**	(33,205)
Earnings for the purpose of basic earnings per share from continuing operations	**664,805**	63,217
Effect of dilutive potential ordinary shares:		
Adjustment to the share of loss of subsidiaries based on dilution of their earnings per share in relation to the Conversion Rights	**(17,672)**	–
Earnings for the purpose of diluted earnings per share from continuing operations	**647,133**	63,217
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,864,344,200**	4,605,995,646
Effect of dilutive potential ordinary shares:		
Preferred shares	**225,056,925**	1,483,405,479
Share options of the Company	**53,924,417**	11,894,624
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,143,325,542**	6,101,295,749

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share from continuing and discontinued operations attributable to owners of the Company is based on the following data:

	2016	2015
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share	**664,315**	30,012
Effect of dilutive potential ordinary shares:		
Adjustment to the share of loss of subsidiaries based on dilution of their earnings per share in relation to the Conversion Rights	**(17,672)**	–
Earnings for the purpose of diluted earnings per share from continuing operations	**646,643**	30,012

For the years ended 31 December 2016 and 2015, the computation of diluted earnings per share does not assume the conversion of a subsidiary's outstanding convertible debenture or the exercise of the outstanding share options issued by loss-making subsidiaries of the Group since their assumed conversion or exercise would result in an increase in the earnings per share.

10. OTHER INTANGIBLE ASSETS

	Capitalised development *HK$'000*	Software *HK$'000*	Technical knowhow and patents *HK$'000*	Total *HK$'000*
COST				
At 1 January 2015	–	–	–	–
Addition arising from acquisition of subsidiaries	–	141	126,185	126,326
Additions	38,214	3,155	1,367	42,736
Effect of foreign currency exchange differences	–	(112)	(12,418)	(12,530)
At 31 December 2015	38,214	3,184	115,134	156,532
Addition arising from acquisition of a subsidiary	–	–	6,946	6,946
Additions	69,685	1,877	509	72,071
Effect of foreign currency exchange differences	(51)	650	2,629	3,228
At 31 December 2016	107,848	5,711	125,218	238,777
ACCUMULATED AMORTISATION				
At 1 January 2015	–	–	–	–
Amortisation expense	–	712	8,430	9,142
Effect of foreign currency exchange differences	–	(55)	(25)	(80)
At 31 December 2015	–	657	8,405	9,062
Amortisation expense	–	2,553	11,891	14,444
Effect of foreign currency exchange differences	–	607	137	744
At 31 December 2016	–	3,817	20,433	24,250
CARRYING AMOUNTS				
At 31 December 2016	107,848	1,894	104,785	214,527
At 31 December 2015	38,214	2,527	106,729	147,470

11. GOODWILL

	HK$'000
COST	
At 1 January 2015	84,054
Addition arising from acquisition of subsidiaries	71,746
At 31 December 2015	155,800
Addition arising from acquisition of subsidiaries	9,199
Eliminated on disposal of a subsidiary	(84,054)
At 31 December 2016	80,945
IMPAIRMENT	
At 1 January 2015	70,553
Impairment loss recognised in the year	13,501
At 31 December 2015	84,054
Impairment loss recognised in the year	39,382
Eliminated on disposal of a subsidiary	(84,054)
At 31 December 2016	39,382
CARRYING VALUES	
At 31 December 2016	41,563
At 31 December 2015	71,746

12. DERIVATIVES FINANCIAL ASSETS

	Derivatives Swap Right *HK$'000*	**Derivatives right of convertible securities** *HK$'000*	**Derivatives right of share of Longsheng** *HK$'000* *(note 9)*	**Total** *HK$'000*
At 1 January 2015	–	–	–	–
Recognition on acquisition of subsidiaries on 23 February 2015	20,350	31,613	–	51,963
Change in fair value	(234)	(429)	–	(663)
Carrying value at 31 December 2015	20,116	31,184	–	51,300
Recognition of subscription right	–	–	1,021,151	1,021,151
Change in fair value	9,954	7,436	(229,913)	(212,523)
Derecognised upon exercise of underlying options	(22,396)	(38,620)	–	(61,016)
Carrying value at 31 December 2016	7,674	–	791,238	798,912

Notes:

On 25 March 2015, the Group entered into a subscription agreement with Zhejiang Longsheng Automotive Parts Stock Limited Corporation (浙江龍生汽車部件股份有限公司) ("Longsheng"), which listed on the Shenzhen Stock Exchange, pursuant to which Longsheng conditionally agree to issue, and the Group conditionally agreed to subscribe for 42,075,736 new shares of Longsheng at the consideration of RMB300 million (equivalent to approximately HK$375 million. On 11 Nov 2016, the Group obtained the approval from the China Securities Regulatory Commission for the subscription and all the conditions of the subscription agreement have been satisfied. The subscription right is a derivative that measured at FVTPL. During the year ended 31 December 2016, the Group recognised a gain of HK$1,021,151,000 on the initial recognition of the subscription right of such shares and a loss from change of fair value of HK$229,913,000. The subscription has been completed subsequent to the year end.

13. INVENTORIES

	2016	2015
	HK$'000	*HK$'000*
Raw materials	**22,339**	5,087
Work in progress	**–**	5,807
Finished goods	**126,971**	33,143
	149,310	44,037

14. TRADE AND OTHER RECEIVABLES

Before accepting any new customers, the Group will have a deep investigation to assess the potential customer's credit quality and defines credit limits by customers.

The following is an aged analysis of trade receivables presented based on the revenue recognition date, at the end of the reporting period.

	2016	2015
	HK$'000	*HK$'000*
Trade receivables *(note a)*		
0 – 30 days	**6,810**	297,995
31 – 60 days	**–**	9,637
61 – 90 days	**–**	1,681
91 – 180 days	**–**	1,129
181 – 365 days	**221,047**	4
over 365 days	**99,137**	–
	326,994	310,446
Deposits and other receivables	**11,948**	11,994
Interest receivables	**4,049**	10,906
Prepayment for advertising	**5,582**	11,978
Prepayments for suppliers	**42,870**	12,737
Earnest monies paid *(note b)*	**126,354**	-
Prepaid consultancy fee *(note c)*	**5,141**	-
	522,938	358,061

The Group did not hold any collateral over these balances.

Notes:

a. As at 31 December 2016, amount includes trade receivables from sales of the "Cloud", a flying apparatus platform amounting to approximately HK$326,994,000 (equivalent to RMB292,900,000) of which HK$70,333,000 (RMB60,000,000) was subsequently settled in March 2017.

b. It represents earnest monies paid for two investment projects, which are interest free and refundable. Subsequent to 31 December 2016, the entire amount was fully refunded.

c. It represents prepayment made to a consultancy company for providing investment opportunity. Subsequent to 31 December 2016, the entire amount was fully refunded.

The Group's trade and other receivables that are denominated in currencies other than the functional currency of the group entities are set out below:

	2016	2015
	Equivalent to	Equivalent to
	HK$'000	*HK$'000*
USD	**–**	11,612

Aging of trade receivables which are past due but not impaired:

	2016	2015
	HK$'000	*HK$'000*
Overdue by:		
0 – 30 days	**–**	276,761
31 – 60 days	**–**	1,962
61 – 90 days	**18,086**	82
91 – 180 days	**41,530**	1
181 – 365 days	**37,958**	–
	97,574	278,806

Included in the trade receivables overdue are balances arising from the sales of two "Clouds" amounting to approximately RMB87,401,000 (equivalent to HK$97,574,000) (2015: RMB223,500,000, equivalent to HK$266,859,000). These trade receivable are due from local government related bodies and despite the lack of track record, management consider that these customers have solid financial background.

The remaining trade receivables as at 31 December 2015 which are past due but not impaired related to customers that had good track records with the Group. There has not been a significant change in the credit quality and the balances were still considered fully recoverable.

15. LOAN RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Long term portion *(note a)*	**21,711**	–
Short term portion *(note b)*	**273,989**	–
	295,700	–

Notes:

(a) The amount is an advance to a potential investee. It is pledged with the patents of the borrower, interest bearing at 8% per annum and repayable within 24 months from the first drawdown date. Accordingly to the terms of the loan agreement, the Group has the right to convert the loan into the potential investee's shares at agreed conversion price if the potential investee fails to reach certain milestones stated in the loan agreement. As the loan contains an embedded conversion option, the embedded conversion option is accounted for as a separate derivative as it meets the definition of a derivative, the risks and characteristics are not closely related to those of the loan and the loan is not measured at fair value through profit or loss. The directors of the Company consider that the fair value of this derivative is immaterial as the milestones are expected to be fulfilled.

Both Dr. Liu Ruopeng (the controlling shareholder and executive director of the Group) and Huang weizi (spouse of Dr. Liu Ruopeng) are directors of the investee. In additions, Photon Future Limited, a company controlled by Dr. Liu Ruopeng, holds approximately 20.12% shares of the investee.

(b) As at 31 December 2016, the balance included:

1. A loan to a shareholder of a potential investee in the United Kingdom amounting to HK$9,550,000. The amount is secured by the equity interests of a private company held by such shareholder, interest bearing at 8% per annum and repayable within one year from the agreement date. The acquisition of the investee has been completed on 16 January 2017. The loan was fully repaid by the borrower on 22 March 2017.

2. The remaining loan receivables amounting to HK$264,439,000, which are unsecured, interest bearing at 3% per annum and repayable on demand. Subsequent to year end, the entire amounts have been repaid by the borrowers.

16. TRADE AND OTHER PAYABLES, AND DEFERRED REVENUE/LONG TERM PAYABLE

The following is an aged analysis of trade payables and note payables presented based on the invoice date at the end of the reporting period.

	2016	2015
	HK$'000	*HK$'000*
Trade payables		
0 – 90 days	**45,558**	16,480
Over 90 days	**–**	3,832
	45,558	20,312
Deferred revenue *(note a)*	**73,682**	–
Deposit received	**67**	536
Accrued salary	**33,650**	15,090
Other payables and accruals	**35,209**	45,677
Other tax payables *(note b)*	**73,783**	38,441
Interest payables	**602**	–
Receipt in advance *(note c)*	**98,969**	–
	361,520	120,056

All Group's trade payables are denominated in the functional currency of the group entities.

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Notes:

(a) The balances represent (i) a conditional government grant amounting to RMB60,000,000 (equivalent to HK$66,984,000) received from a city government in China to develop and promote the commercialisation of innovative technology. The government grant has been recognised as deferred income as the government's assessment attaching to the government grant is still not yet carrying out; and (ii) the Group deferred 20% of the grant amounting RMB6,000,000 (equivalent to HK$6,698,400) from the committee as the government's assessment was not completed. Since the government grant is for research and development purpose, it is classified as operating cash flows in the consolidated statement of cash flows.

(b) Other tax payables mainly include value-added tax payables amounting to HK$66,217,000 (2015: HK$32,619,000) arising from the sale of clouds.

(c) It represents partial payments from customers for sales of Clouds and other technology products. The amount has been recognised as receipt in advance as the goods shipped are subject to installation and the installation is a significant part of the contract which has not yet been completed by the Group at the year end date.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW AND PROSPECTS

The Group is principally engaged in the research and development and manufacture of innovative products for future technology businesses, and the provision of other innovative technology service solutions (the "Future Technology Business"). During the year, the Group recorded a net profit of HK$596,544,000. Gross profit was HK$198,446,000 and gross profit margin was 68.31%. Turnover of HK$290,492,000, representing an increase of 4.06% over last year. During the year, the Group also generated other gains, net of HK$816,969,000, which was mainly attributable to the gain on investments of the Group, amounting HK$808,628,000. Basic earnings per share from continuing operations increased to 11.34 HK cents.

The Future Technology Business – To design the future, to deliver the future

In recent years, ever-changing technology revolutions and industrial transformations worldwide have been pushing technology innovation to develop faster. Along with the in-depth integration and commercialisation of different innovative technologies, new tech products and services have gradually penetrated into human societies from all walks of life. Amongst all, smart cities are important to solving the long-standing problems in city development. Data shows that China has an economic loss exceeding RMB650 billion annually due to public safety incidents. In 2016, the environmental issues in China resulted in a direct loss of RMB9,244 billion. In 2015, natural disasters gave rise to a direct loss of approximately RMB608.5 billion for the agricultural industry in China. Building smart cities will significantly reduce the cost of city governance, prevent disasters, and minimise losses. Meanwhile, more than 500 cities in China has set building smart cities as a development goal. Chinese cities will follow the trend of building smart cities, which will promote rapid growth in demand for smart city development.

During the year, the Group put its focus on the Future Technology Business. The Group is committed to creating future smart cities. To achieve this, the Group is now developing and integrating different future technologies, including "future space" technology and "future artificial intelligence (AI)" technology, to provide a comprehensive range of innovative products, services and solutions, so as to enhance service efficiency, satisfy residents' needs, create better living quality and, in particular, solve the environmental and "global connection" issues that people are facing. Specifically, its objectives can be categorised into three aspects, namely safety, sustainability and space expansion. On safety, it emphasises on emergency response and disaster precaution and warning. On sustainability, it emphasises on environmental protection. On space expansion, it emphasises in particular on providing services to connect the world and remote areas.

For the "future space" technology business, the Group devotes to develop new technology and products for future space at different altitudes, and provides a comprehensive range of space services. Its self-developed products include "Cloud", "Traveller", "KuangChi Martin Jetpack", "KuangChi Solar Ship", etc. The products are used in wide-area internet-of-things (IoT) networking, optical remote sensing and telemetry, internet access, smart big data collection, private network and backbone communication, smart observation, emergency rescue, traffic and transportation, space tourism and others, with the purposes of fully expanding human living space and enhancing the efficiency of space utilisation.

For the "future AI" technology business, the Group invests in developing voice recognition-featured, open-structured and video analytic identification and the like products and solutions. During the year, the Group entered into investment agreements with Agent Video Intelligence ("Agent VI", an Israeli video analytics solution provider) and Beyond Verbal Communications Ltd. ("Beyond Verbal", an Israeli health and emotions analytics solution provider), to invest an amount of US$4,300,000 and US$3,000,000 into Agent Video Intelligence and Beyond Verbal Communications Ltd. respectively, in jointly promoting the development and commercialisation of future AI technology.

During the year, revenue from the Future Technology Business was approximately HK$290,132,000, representing an increase of 4.06% over last year. Of the revenue, the Group's fastest commercialised "Cloud" products accounted for HK$290,132,000. In respect of products of the Future Technology Business, the Group incurred selling and marketing expenses of HK$39,975,000 and research and development expenses of HK$110,027,000. Administrative expenses, including staff cost of the in-depth space business, amounted to HK$136,899,000.

Progress of the commercialisation and application of "Cloud"

During the year, the Group entered agreements in relation to the sales and operation of "Cloud" in a number of PRC cities. During the year, "Cloud" has been successfully put into operation in Dongguan, Zunyi and other places. As the application platform for smart cities, "Cloud" integrates all smart applications, successfully forming an integrated space-earth networking platform.

Since the first global commercial flight at SongShan Lake Ecological Park (松山湖生態園) in December 2015, the "Cloud" smart city space information platform in Dongguan has been running smoothly and put into service in Dongguan. In October 2016, the Group performed demonstrations of using "Cloud" in "smart environmental protection", "emergency communication", "fire surveillance" and others, which showed that "Cloud" can be used to provide round-the-clock services such as visible and infrared and other surveillances. Real-time environmental monitoring and other data is collected by sensors on ground and gathered in "Cloud", which then sends the data to the control centre via optical fibre transmission. In addition, in regards to the "Cloud" space information platform project in Dongguan, the Group has entered into strategic cooperation agreements with a number of well-known and leading enterprises in smart city sector, to jointly expand the smart city market. Through the synergistic collaboration among the parties, the Group seeks to upgrade smart city infrastructure for an improved industry chain and ecosystem of cities in the future.

In 2016, the Group conducted detailed negotiations with the administration units and departments of Xinpu New District in respect of the "Cloud" in Zunyi base, and developed new applications, namely mudslide monitoring, environmental protection check, urban unauthorised building surveillance, traffic observation, 3D geometric information and cyberspace safety light, which form a basis of big-data for city administrators in city surveillance, ecological monitoring and emergency communication and fire warning. Meanwhile, "Cloud" serves as a platform for governments to provide innovators and entrepreneurs with resources.

Besides, the Group entered into cooperation with a number of new industrial city developers, to use "Cloud" in developing new industrial cities for the interest of governments and the societies. At the early stage of new industrial city development, "Cloud" was used in geometric and geomorphological observation, environmental monitoring, etc, which facilitated the overall planning and management of smart parks.

Set up near space technology research and development institute and "Traveller II" test flight

During the year, the Group formed a strong alliance with Haikou National Hi-tech Zone and established the Haikou Future Technology Institute and KuangChi Near Space Technology Research and Development Headquarters. The purpose of the institute is to enhance its own capability of developing special projects for the aviation and aerospace industry (such as near space flying apparatus) and technology for the strategic emerging industry, and thereby to develop itself as a research institute with internationally top-notch development capacity in aviation and aerospace. It also seeks to establish stable and close partnership with organisations and enterprises that are engaged in fields such as aviation and aerospace, electronic information and new materials in Hainan province, with the aim of becoming an important platform for the collaboration among industry, academia and research institutes in Hainan province. In the meantime, the institute will base on its previous experience in undertaking near space projects, to further advance the technology of "Traveller" near space flying platform, as well as to optimise its business operation model.

During the year, "Traveller II" completed test flight in Xinjiang of China in November 2016 and reached an altitude of 12,000 m. However, due to the abnormal performance of some communication and control systems, for the sake of overall test safety, "Traveller II" made an emergency landing and returned to the earth according to the ground instruction. Compared to "Traveller I", which has launched in New Zealand, "Traveller II" has and carries additional cabins, functions and equipment such as space-earth dialogue, hi-speed communication and propeller, which make the test flight more difficult.

The main cabin of "Traveller II" is equipped with a specially-designed traction system. The multi-channel optical systems installed inside and outside the cabin enable real-time video surveillance and high-definition photo shooting of space, earth and the main parts of itself when it is on orbit. They also provide both remote and self-control options, and allow for collecting a large number of videos, images and information and transmitting them to the control centre on-ground simultaneously.

Progress of the commercialisation and application of "KuangChi Martin Jetpack" project

During the year, the Group emphasised on upgrading the technology and performance of "KuangChi Martin Jetpack" products. It has done various testings and made product deliveries. In the first half of 2016, the Group finalised the P14 version of "KuangChi Martin Jetpack" and initiated the "weight-cutting program". As a result, the Group developed the business version of Series 1 jetpack for users from special industries. "KuangChi Martin Jetpack" is mainly used for emergency and rescue purposes, including fire, police and ambulance services, anti-terrorism and other special operation, hostage rescue, maritime defense, petroleum and natural gas platforms, etc.

Progress of the commercialisation and application of "Solar Ship"

In the second quarter of 2016, the Group completed the overall planning and design of the Fossa version of Solar Ship under the "Solar Ship" project, and put it into manufacture. In the same period, under the guidance of Royal Canadian Air Force, the Group started testing on the systems of Fossa Solar Ship on an individual basis. It is the plan of the Group to complete the maiden test flight of Fossa Solar Ship by the first quarter of 2017. In the first quarter of 2016, under the "Solar Ship" project, the Group and Royal Canadian Air Force entered into an aircraft leasing agreement in relation to aviation exercises and a letter of intent in relation to the purchases for Chinese market. In the fourth quarter of 2016, the Group set up sales and operations offices in Uganda, South Africa and Zambia for the "Solar Ship" project. The project has been progressing to a final stage of sales and market promotion.

Comprehensive layout for developing the "Future AI" business and technology

During the year, the Company closely embraced its awareness of the future trends, including in-depth space, spiritual machines and ultimate connection, to deploy comprehensive layout for developing the "Future AI" business and technology. Spiritual machines are machines that have been empowered with souls, allowing such equipments to become human partners rather than simply tools. The management believes that such analytics solution technology enables machines to be emotionally intelligent thereby better serve all mankind.

Statistics indicate that the scale of AI market in China has reached RMB23.9 billion in 2016, and is forecasted to grow to RMB38.1 billion by 2018, representing a compound annual growth rate of 26.3%. Future AI technology is key for establishing and developing smart cities in the future. Emotion recognition equipment, in particular of spiritual machines, will play an important role in the development of smart cities in areas of security, traffic control, healthcare and smart community. It is the source of intelligence for smart cities. The demand for application in the establishment and development of smart cities will drive growth of AI technology and industry.

During the year, the Group deployed comprehensive layout for developing the "Future AI" business and technology. It invested in developing voice recognition-featured, open-structured and video analytic identification and the like products and solutions. Its investees include two Israeli-based companies, namely Beyond Verbal and Agent VI.

Beyond Verbal focuses on the decoding of human emotions and well-being through human voice. This world leading technology is a revolutionary breakthrough in the field of analysing health and emotions and the emotions analysing technology has undergone more than 20 years of research and development with a wide range of prospective applications, from improving call centre effectiveness to tracking health conditions overtime. Beyond Verbal has collected more than 2.5 million emotion-tagged voices in more than 40 languages and secured their technology with multiple patents.

Agent VI focuses on the provision of high quality video analytics solutions and achieving seamless matching with third party systems leveraging on its patented software systems, advanced computer visual and machine-enabled learning algorithm, as well as its experience in software development for major surveillance deployments accumulated over the years. Agent VI's solutions enable users to make the best use of their video surveillance networks for they have automatic video analysis on incidents under surveillance with alerts. They can also speed up video search and statistical data extraction from recorded images in surveillance cameras. Agent VI's solutions give stronger safety protection to facilities, enhance the working efficiency of the operators of security and surveillance systems, generate important business information and provide better management of pedestrian and vehicle traffic flows.

Gain on investment in the shares of Longsheng

During the year, the Group recorded a net gain through investment in the shares of Longsheng, amounted to HK$791,238,000. In March 2015, the Group entered into a subscription agreement with Zhejiang Longsheng Automotive Parts Stock Limited Corporation (浙江龍生汽車部件股份有限公司) ("Longsheng"), pursuant to which, the Group subscribed 42,075,736 new shares of Longsheng with a total consideration of RMB300,000,000 at a subscription price of RMB7.13 per share. In November 2016, Longsheng obtained approval from China Securities Regulatory Commission for the application of non-public issuance of shares. Accordingly, the fair value of the investment was determined based on the share price of Longsheng as at 30 December 2016 of RMB37.46. The difference with the subscription price of RMB7.13 per share was recognised as a gain on investment during 2016. The total net gain was HK$791,238,000.

Such investment constitutes a part of the proceeds from the non-public issue of shares by Longsheng. It will be mainly applied towards the industrialisation of metamaterials smart structures and equipment technology. The management believes that such strategic investment is in line with the strategy of the Group. Metamaterial technology will boost the commercialisation of the Group's future space technology and future AI products, as well as reduce the cost of research and development. Meanwhile, in the future, the Group will partner with Longsheng in research and development, to jointly enhance hi-tech products and technology, with the aim to better serve all mankind.

Innovation platform building

During the year, through innovation platforms including Kuangchi State Key Laboratory of Metamaterial Electromagnetic Modulation Technology (光啟超材料電磁調製技術國家重點實驗室), KuangChi Postdoctoral Research Centre (光啟博士後工作站), National Professional Qualification Board (國家專業技術資格評審委員會) and the Metamaterial Professional Committee of Standardisation Administration of the PRC (國家標準化委員會超材料專委會) where KuangChi is the secretariat, the Group continued its efforts on basic technology expansion, innovation, transformation and application, in order to provide radical support for the technological advantage, market competitiveness and long-term development of the Group's in-depth space products.

Manpower development

On staff development front, as the central government issued the "Opinions on deepening of the systematic and structural reform of manpower development" (《關於深化人才發展體制機制改革的意見》), many talents have been released which facilitate manpower mobility in space technology and the related sectors. The Group grasped this opportunity by formulating a key strategy of attracting and fostering talents and high-calibre employees, to introduce and nurture a large pool of talents. It enabled the Group to strengthen and broaden its staff base, and further enhance its core competitiveness.

In the future, the Group will capitalise on its accumulated basic innovative technology and the driving force of further introducing and fostering of talents, to continue to bring a promising future to the present, and create a higher value for its customers, end-users and investors.

Developing incubators of the "Global Community of Innovation"

Being a key member of the "Global Community of Innovation" (GCI), the Group strives to promote the integration of innovative technologies and establishment of platforms for industrialisation. It also takes part in the direct investment in innovation projects of GCI incubators. The Future Technology Business is now focusing on the development of space application. The Group will strengthen its efforts on the planning and layout in the areas of future space, spiritual machines, smart equipment and ultimate connection, to facilitate the international headquarters of GCI in extending the coverage of development, testing and sales network worldwide, to incubate more products and businesses of higher quality.

The Paper Business

During the year, the Group disposed the Paper Business for the consideration of HK$12,000,000 and recognised a gain on disposal of approximately HK$2,213,000. The revenue contributed by the Paper Business up to the disposal date was approximately HK$55,649,000 (2015: HK$74,669,000).

The Group is principally engaged in future technology products and services, whereas the Paper Business is engaged in the manufacture and trading of paper packaging products. The Paper Business is not in line with the main business focus of the Group and therefore the board of directors of the Company considers that the disposal provides an opportunity for the Group to realise its investment in the non-core business and focus all the resources to its future technology businesses.

The Property Investment Business

The Group holds the properties for investment purpose with a view that it can establish recurring rental income, while capture any possible future capital appreciation. During the year, leasing income of approximately HK$360,000 (2015: HK$356,000) was recognised. A gain on change in fair value of investment property of approximately HK$100,000 is recognised in the year (2015: HK$600,000). As a result, a segment profit of approximately HK$404,000 incurred (2015: HK$923,000).

In order to realise its investment in the non-core business and focus all the resources to its future technology businesses, the Group disposed the Property Investment Business for the consideration of HK$9,900,000 in January 2017.

Other results

The Company has granted replacement and new share options to directors and employees of the Group in 2015, the relevant share-based payment expenses for the year was approximately HK$63,126,000 (2015: HK$59,792,000).

Net exchange loss of approximately HK$4,047,000 was recognised during the year (2015: HK$36,214,000) and it was mainly due to the significant depreciation of RMB to HKD in 2015.

CAPITAL STRUCTURE

On 29 May 2014, the Company and New Horizon Wireless Technology Limited ("New Horizon") and other investors (the "Subscribers") entered into a subscription agreement ("Subscription Agreement"), pursuant to which the Company has conditionally agreed to allot and issue, a total of 4,350,000,000 subscription shares, comprising 1,666,666,668 new ordinary shares and 2,683,333,332 new preferred shares (including 1,341,666,666 Tranche A preferred shares and 1,341,666,666 Tranche B preferred shares) at an issue price of HK$0.08 per subscription share. The aggregate gross subscription price amounts to approximately HK$348,000,000. The total net proceeds was approximately HK$327,000,000.

On 12 July 2016, the Company received notices from Starbliss Holdings Limited (one of the Subscribers) to convert all of their respective Tranche B preferred shares into 125,222,222 ordinary shares of the Company. On 17 August 2016, the Company received notices from Lucky Time Global Limited, Grand Consulting Management S.A. and Cutting Edge Global Limited (Three of the Subscribers) to convert all of their respective Tranche B preferred shares into 62,611,111, 62,611,111 and 125,222,222 ordinary shares of the Company respectively. Following conversion of the above Tranche B preferred shares, the Company has no Tranche B preferred shares outstanding.

Use of proceeds

The total proceeds from the fund raising activities, including the subscriptions completed on 22 August 2014 and 29 September 2014, respectively, during the nine months period ended 31 December 2014 were approximately HK$1,888,401,000. During the year ended 31 December 2015, approximately HK$625,117,000 was utilised according to the intended use as specified in the annual report of year 2014. As at 31 December 2015, approximately HK$1,000,471,000 was unutilised.

Below is an analysis for the use of proceeds from the previous fund raising activities during the year:

Intended use of proceeds	**Unutilised proceeds as at 1 January 2016** *HK$'000*	**Utilised during the year** *HK$'000*	**Unutilised proceeds as at 31 December 2016** *HK$'000*
Acquisition of land site and construction of manufacturing facilities and expansion of production capacity for the Future Technology Business	803,609	(64,305)	739,304
Research and development for products and expenses for the Future Technology Business	153,466	(110,027)	43,439
General working capital	705	(705)	–
Global merger and acquisition of In-depth space services industry and products	42,691	(42,691)	–
	1,000,471	(217,728)	782,743

During the year, approximately HK$217,728,000 was utilised according to the intended use as specified in the annual report of year 2014. During the year, the Group has paid approximately HK$64,305,000 to purchase additional plant and equipment for the Future Technology Business, approximately HK$110,027,000 on research and development costs and approximately HK$705,000 for general working capital. Approximately HK$15,500,000 was used to subscribe additional preferred shares of SkyX Limited, HK$23,250,000 was used to subscribe the preferred shares of Beyond Verbal Communication Ltd. ("Beyond Verbal") and HK$33,325,000 was used to subscribe preferred shares of Agent Video Intelligence ("Agent VI"), respectively.

The unused proceeds up to 31 December 2016 were approximately HK$782,743,000. The management will use the remaining proceeds as intended including for the use for merger and acquisition as discussed above.

The management closely monitors the cash level of the Company to balance the return on capital and the liquidity level of the Group. Since 31 December 2016, the Group has further paid for approximately RMB300,000,000 (approximately HK$345,000,000) for the subscription of new ordinary shares of Longsheng. The option exercisable by the Company to subscribe for additional common shares of Solar Ship was expired on 15 January 2017.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the total shareholders' funds of the Group amounted to approximately HK$2,729,711,000 (31 December 2015: HK$2,174,998,000), the total assets of approximately HK$3,504,108,000 (31 December 2015: HK$2,457,909,000) and the total liabilities of approximately HK$774,397,000 (31 December 2015: HK$282,911,000).

As at 31 December 2016, the Group had bank balances and cash of approximately HK$870,558,000 (31 December 2015: HK$1,228,556,000), time deposit of approximately HK$252,005,000 (31 December 2015: HK$125,133,000) and the Group had structured bank deposits of approximately HK$13,397,000 (31 December 2015: nil). As at 31 December 2015, the Group also had pledged bank deposits of HK$143,280,000. The gearing ratio as of 31 December 2016, defined as the percentage of the total interest bearing debt, including bank borrowings of approximately HK$264,147,000 (31 December 2015: HK$142,397,000) and convertible debenture of approximately HK$6,584,000 (31 December 2015: HK$5,569,000). (Obligations under finance leases of approximately HK$233,000 was also included in 2015), to net asset value, was approximately 9.91% (31 December 2015: 6.81%).

The Group's business operations and investments are in the PRC, Hong Kong, New Zealand and Canada. Bank balances and cash as at 31 December 2016 denominated in local currency and foreign currencies mainly included HK$112,159,000, RMB332,996,000, NZD17,324,000, USD66,234,000 and CAD7,881,000 respectively. The outstanding balances of borrowings included HK$160,230,000 and USD13,400,000. Other than described above, most of the assets, liabilities and transactions of the Group are primarily denominated in HK$ and RMB. The Group has not entered into any instruments on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

INVESTMENT POSITION AND PLANNING

Investment in Beyond Verbal

On 8 September 2016, the Company has entered into an investment agreement with Beyond Verbal to invest an aggregate sum of US$3 million in Beyond Verbal.

Beyond Verbal focuses on the decoding of human emotions and well-being through human voice. This world leading technology is a revolutionary breakthrough in the field of analysing health and emotions and the emotions analysing technology has undergone more than 20 years of research and development with a wide range of prospective applications, from improving call centre effectiveness to tracking health conditions overtime. Beyond Verbal has collected more than 2.5 million emotion tagged voices in more than 40 languages and secured their technology with multiple patents.

The Company's investment in Beyond Verbal closely signifies Kuang-Chi's awareness of future trends in areas including in-depth space, spiritual machines and ultimate connection. Spiritual machines are machines that have been empowered with souls, allowing such equipments to become human partners rather than simply tools. Beyond Verbal's emotions analysing technology enables machines to be emotionally intelligent thereby making them provide better services to human. This future technology is important to the spiritual machines field, and it is in line with the Company's future development strategy in spiritual machines.

Investment in Agent VI

On 14 September 2016, the Company entered into an investment agreement with Agent VI, an Israeli video analytics solution provider, to invest an aggregate sum of US$4.3 million.

Established in 2003, Agent VI focuses on the provision of high quality video analytics solutions and achieving seamless matching with third party systems leveraging on its patented software systems, advanced computer visual and machine-enabled learning algorithm, as well as its experience in software development for major surveillance deployments accumulated over the years. Agent VI's solutions enable users to make the best use of their video surveillance networks for they have automatic video analysis on incidents under surveillance with alerts. They can also speed up video search and statistical data extraction from recorded images in surveillance cameras. Agent VI's solutions give stronger safety protection to facilities, enhance the working efficiency of the operators of security and surveillance systems, generate important business information and provide better management of pedestrian and vehicle traffic flows.

According to a report published by IHS market research firm, Agent VI is the market leader in video analytics solutions, with numerous successful deployments worldwide. Its patented technology provides sophisticated and customised analytics solutions across city safety, infrastructure, transport, retail and other applications.

The investment in Agent VI marks an important step of the furtherance of the Company's Future City strategy for its future technology business development. The Future City strategy aims to enhance service efficiency with advanced technologies so as to satisfy residents' needs, create better living quality and, in particular, solve the environmental and "global connection" issues that people are facing. Its objectives can be categorised into three aspects, namely safety, sustainability and space expansion.

Investment in SkyX

On 21 September 2015, the Company and SkyX Limited ("SkyX") entered into a preferred shares purchase agreement (the "PSP Agreement"), pursuant to which the Company agreed to acquire 738,916 preferred share of SkyX for consideration amounted to US$1,500,000 and upon SkyX fulfilling certain conditions (the "SkyX Conditions"), the Company will further acquire an additional 1,268,634 preferred shares of SkyX for an additional cash consideration amounting to US$3,500,000. In addition, immediately following the satisfaction of all SkyX condition and ending 24 months thereafter, the Company shall have the right to purchase all remaining issued and outstanding shares of SkyX at a consideration equal to a valuation of SkyX at that time ("Buyout Option"). Furthermore, the Company and the founding shareholder of SkyX ("Original Shareholder") shall each have an option, pursuant to which the Original Shareholder may require the Company to purchase, or the Company may require the Original Shareholder to sell certain shares of SkyX (as adjusted for any share split, reverse share split, issuance of bonus shares, reclassification or similar transaction) held by the Original Shareholder upon fulfilling of the SkyX Conditions.

The Company currently holds 1,514,110 preferred shares of SkyX which are currently convertible into 1,514,110 ordinary shares of SkyX, subject to anti-dilution adjustments. All preferred shares of SkyX acquired to be acquired by the Company pursuant to the PSP Agreement will be convertible into ordinary shares of SkyX upon subscription. The Company will hold 60.2% of the ordinary share capital of SkyX when all the 1,514,110 preferred shares are converted based on the number of ordinary shares in issue as at 31 December 2016. Upon the Company's purchase and conversion of the additional 493,440 preferred shares of SkyX upon Satisfaction of SkyX Conditions, the Company's shareholding in SkyX will be approximately 66.8%, based on the number of ordinary shares in issue as at 31 December 2016.

Saved as disclosed above, and the section headed "The Paper Business" under "Performance Review and Prospects", the Group did not have any other significant investment and there are no other material acquisition or disposal of subsidiaries and associated company during the year.

EVENTS AFTER THE REPORTING PERIOD

Reference is made to the announcement of the Company dated 16 January 2017 in relation to the Investment Agreement on 16 January 2017, under which a wholly owned subsidiary of the Company has subscribed new ordinary shares of Gilo Industries Group Limited ("Gilo"), representing approximately 19.14% of the enlarged issued capital of Gilo, at a consideration of GBP9,467,456 (equivalent to approximately HK$89,372,785). Upon achieving certain product targets, obtaining international certifications for its products and meeting income provisions stipulated in the Investment Agreement by Gilo, the second tranche of investment will be made in the form of subscription of new ordinary shares of Gilo at a consideration of GBP8,260,355 (equivalent to approximately HK$77,977,751) and acquisition of existing ordinary shares of Gilo at a consideration of GBP1,751,480 (equivalent to approximately HK$16,533,971). Upon the completion of the second tranche of investment, the Group will hold approximately 33.74% of the enlarged issued share capital of Gilo. The third tranche of investment will be made in the form of subscription of new shares of Gilo at a consideration of GBP5,041,420 (equivalent to approximately HK$47,591,005). Upon completion of the Subscription and the Acquisition, the Group will hold approximately 39.06% of the enlarged issued share capital of Gilo.

Gilo is principally engaged in the research and development and manufacturing for aviation and aerospace technology and solutions with a focus on the research and development and manufacturing for innovative engine technologies. Gilo is also a supplier of MACL.

The financial impact of such acquisition is under assessment by the management of the Company.

Subsequent to the year end, options to acquire additional 116,279 common shares of Solar Ship was expired and not exercised and the management of the Company expects that the investment will be derecognised as subsidiary on the date of option expired. The financial impact is under assessment by the management of the Company.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2016 and 2015, certain assets of the Group were pledged to secure banking facilities granted to the Group and obligation under finance lease as follows:

	31 December 2016	31 December 2015
	HK$'000	*HK$'000*
Plant and equipment under finance lease	**–**	4,038
Pledged deposit	**–**	143,280
	–	147,318

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no significant contingent liabilities (31 December 2015: Nil).

CAPITAL COMMITMENTS

	2016	2015
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of the acquisition of:		
Plant and equipment	**253,107**	13,108

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had approximately 950 employees. The Group provides competitive remuneration packages to employees with the share option scheme and the restricted shares award scheme. The Group also provides attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

CORPORATE GOVERNANCE PRACTICES

The Board acknowledges the importance of the highest standards of corporate governance as the Board believes that effective corporate governance practices are fundamental to enhance the shareholders' value and safeguard the interests of the shareholders. Accordingly, the Company has adopted sound corporate governance principles that emphasis effective internal control and accountability to all shareholders.

The Board is responsible for performing the corporate governance functions with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") (the "CG Code").

Save as the the deviations from the code provisions A.6.7 and E.1.2 of the CG Code, the Company has complied with the CG Code during the year under review.

Code provisions A.6.7 and E.1.2 of the the CG Code stipulate that independent non-executive directors and the chairman of the board of directors should attend annual general meetings. Dr. Liu Jun, an independent non-executive director of the Company ("Director(s)"), and Dr. Liu Ruopeng, the chairman of the Board ("Chairman"), did not attend the annual general meeting held on 27 June 2016, due to other business commitments. Nevertheless, the Chairman appointed Dr. Luan Lin, an executive Director, who is well versed in all business activities and operations of the Group, as his delegate to attend and chair at such general meeting on behalf of Dr. Liu Ruopeng and to respond to shareholders' questions. In addition, the Board believes that the presence of other independent non-executive Directors at such general meeting has allowed the Board to develop a balanced understanding of the views of shareholders.

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

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2016, nor has any dividend been proposed for the year ended 31 December 2016 (year ended 31 December 2015: Nil).

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code") as its model code for securities transactions by Directors. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code during the year ended 31 December 2016.

CHANGE OF DIRECTORS' INFORMATION

Upon specific enquiry by the Company and following confirmations from Directors, save as otherwise set out in this announcement, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company's last published interim report. The change of Director's information as required to be disclosed pursuant to Rule 13.51B of the Listing Rules are set out below:

1. Dr. Luan Lin was appointed as the co-chief executive officer of the Company with effect from 23 May, 2016.

2. Ms. Cao Xinyi was appointed as an independent non-executive director and chairman of the audit committee with effect from 20 October, 2016.

3. Mr. Dorian Barak was appointed as an executive director of the Company with effect from 1 February, 2017.

4. Mr. Song Dawei was appointed as a non-executive director of the Company with effect from 1 February, 2017.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") comprises three independent non-executive directors of the Company. The Audit Committee has adopted terms of reference which are in line with the CG Code. The Audit Committee has reviewed the Group's audited results for the year ended 31 December 2016 and agreed with the accounting treatment adopted. The Audit Committee is satisfied with the Group's internal control procedure and financial reporting disclosures.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in this announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2016. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an 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 Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

PUBLICATION OF THE 2016 ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.kuangchiscience.com), respectively. The Company will dispatch the annual report of the Company for the year ended 31 December 2016 to the shareholders of the Company in due course, which will also be published on the websites of the Company and the Stock Exchange.

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

Hong Kong, 31 March 2017

As at the date of this announcement, the Board comprises five executive Directors, namely Dr. Liu Ruopeng, Dr. Zhang Yangyang, Dr. Luan Lin, Mr. Ko Chun Shun, Johnson and Mr. Dorian Barak; one non-executive Director namely Mr. Song Dawei and three independent non-executive Directors, namely Dr. Liu Jun, Dr. Wong Kai Kit and Ms. Cao Xinyi.