KUANGCHI SCIENCE LIMITED
光啟科學有限公司

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board of directors (the "Board") of KuangChi Science Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 (the "Period") together with the comparative figures for the same period in 2016 (the "Comparative Period") as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2017

		Six months ended 30 June	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	5	**190,735**	311,992
Cost of sales		**(77,956)**	(115,715)
Gross profit		**112,779**	196,277
Other income	6	**68,631**	2,426
Other gains, net	7	**609,349**	4,921
Provision for impairment of goodwill	8	**(32,364)**	–
Share of losses of associates		**(2,101)**	(1,010)
Selling and distribution expenses		**(24,402)**	(22,645)
Research and development expenses		**(188,420)**	(49,766)
Administrative expenses		**(62,212)**	(55,787)
Finance income		**6,932**	7,343
Finance costs		**(11,587)**	(791)

	Notes	Six months ended 30 June 2017 HK$'000 (unaudited)	2016 HK$'000 (unaudited)
Profit before tax		**476,605**	80,968
Income tax expense	10	**(91,575)**	(16,176)
Profit for the period		**385,030**	64,792
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translating foreign operations		**52,045**	6,158
Fair value loss of an available-for-sale investment		**(235,730)**	–
Total comprehensive income for the period		**201,345**	70,950
Profit for the period attributable to:			
Owners of the Company		**464,058**	105,529
Non-controlling interests		**(79,028)**	(40,737)
		385,030	64,792
Total comprehensive income attributable to:			
Owners of the Company		**280,345**	111,577
Non-controlling interest		**(79,000)**	(40,627)
		201,345	70,950
Earnings per share	12		
Basic (HK cents per share)		**7.68**	1.85
Diluted (HK cents per share)		**7.67**	1.17

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

	Notes	**30 June 2017 *HK$'000* (unaudited)**	31 December 2016 *HK$'000* (audited)
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Plant and equipment		**162,486**	149,435
Goodwill		**9,199**	41,563
Intangible assets		**45,139**	214,527
Investment property		**–**	13,800
Investment in associates		**59,767**	33,166
Derivative financial assets	13	**7,674**	798,912
Available-for-sale investments	14	**1,667,077**	29,040
Prepaid lease payments		**87,283**	83,581
Deposits paid for acquisition of plant and equipment	15	**20,700**	25,634
Loan receivables		**–**	21,711
Prepayment for advertising		**2,712**	5,389
Total non-current assets		**2,062,037**	1,416,758
CURRENT ASSETS			
Prepaid lease payments		**–**	2,204
Inventories		**83,763**	149,310
Trade and other receivables	15	**429,100**	522,938
Loan receivables		**21,856**	273,989
Income tax recoverable		**2,254**	2,949
Time deposit		**195,378**	252,005
Structured bank deposit		**–**	13,397
Cash and cash equivalents		**1,154,928**	870,558
Total current assets		**1,887,279**	2,087,350
TOTAL ASSETS		**3,949,316**	3,504,108
CURRENT LIABILITIES			
Trade, other payables and deferred revenue	17	**181,776**	361,520
Income tax payable		**1,564**	23,427
Bank borrowings	18	**264,828**	264,147
Convertible debenture		**–**	6,584
Total current liabilities		**448,168**	655,678

	Notes	**30 June 2017** *HK$'000* **(unaudited)**	31 December 2016 *HK$'000* (audited)
NON-CURRENT LIABILITIES			
Other borrowing	18	**345,000**	–
Deferred tax liabilities		**216,073**	118,719
Total non-current liabilities		**561,073**	118,719
TOTAL LIABILITIES		**1,009,241**	774,397
CAPITAL AND RESERVES			
Share capital	16	**61,099**	60,894
Reserves		**2,751,618**	2,400,041
Equity attributable to owners of the Company		**2,812,717**	2,460,935
Non-controlling interests		**127,358**	268,776
TOTAL EQUITY		**2,940,075**	2,729,711
TOTAL EQUITY AND LIABILITIES		**3,949,316**	3,504,108

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017

1 GENERAL INFORMATION

KuangChi Science Limited (the "Company") and its subsidiaries (together, the "Group") are 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 Group mainly operates in PRC, New Zealand and Canada.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited.

This condensed consolidated financial information is presented in Hong Kong dollars ("HKD"), unless otherwise stated. The condensed consolidated financial information has been approved for issue by the Board on 31 August 2017.

This condensed consolidated financial information has not been audited or reviewed by the external auditor.

2 BASIS OF PREPARATION

This condensed consolidated financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

This unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by HKICPA.

This condensed consolidated financial information has been prepared on the historical cost basis except for investment property, certain available for sale financial assets and derivatives financial assets which are measured at fair values.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements except for the adoption of Amendments to HKASs as described below.

In the current interim period, the Group has applied, for the first time, the following new amendments to HKASs that are mandatorily effective for the current interim period:

HKAS 7 (Amendment)	Disclosure Initiative
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses and disclosure of interest in other entities

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

The following new standards and amendment to standards and interpretations have been issued but are not mandatory for the financial period beginning 1 January 2017 and have not been early adopted:

HKAS 28 (Amendment)	Investment in associate and joint ventures [1]
HKFRS 1(Amendment)	First time adoption of HKFRS [1]
HKFRS 2(Amendment)	Share-based payment [1]
HKFRS 4(Amendment)	Insurance contracts "Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contract" [4]
HKFRS 9	Financial Instruments [1]
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an Investor and its Associate and joint venture [3]
HKFRS 15	Revenue from contracts with customers [1]
HKFRS 16	Leases [2]

(1) Effective for the Group for annual period beginning on 1 January 2018.
(2) Effective for the Group for annual period beginning on 1 January 2019.
(3) Effective date to be determined.

Management is assessing the impact of the above amendments to standards and interpretations, which have been issued but are not yet effective for 2017, on the Group's operations, and is yet to be in the position to conclude the impact.

There are no other HKFRSs or HK (IFRIC) interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016, with the exception of changes in estimates that are required in determining the provision for income taxes.

5 SEGMENT INFORMATION

Following the discontinuation of paper business during the year ended 31 December 2016, the financial information provided to the CODM does not contain profit or loss information of each product line or each market segment and the CODM review the operating results of the Group on a consolidated basis. Therefore, the operation of the Group constitutes one single reportable segment and no further analysis of segments is presented.

Geographical information

The Group operates in four principal geographical areas – the People's Republic of China (excluding Hong Kong) ("PRC"), Hong Kong, New Zealand and Canada.

Information about the Group's revenue from operations from external customers is presented based on the location of the goods delivered. Information about the Group's non-current assets is presented based in the geographical locations of the assets.

	Revenue from external customers		Non-current assets*	
	Six months ended 30 June		30 June	31 December
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(audited)
PRC	**190,705**	311,812	**248,096**	215,652
Hong Kong	**30**	180	**1,869**	16,329
New Zealand	**–**	–	**53,101**	187,947
Canada	**–**	–	**21,741**	108,612
	190,735	311,992	**324,807**	528,540

* Non-current assets exclude financial instruments, investment in an associate and long-term prepayment.

6 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Government subsidies *(note a)*	**68,004**	–
Sales of scrap material	**–**	159
Sundry income	**627**	2,267
	68,631	2,426

Note a:

During the period ended 30 June 2017, the Group recognised a conditional government grant amounting to RMB60,000,000 as the Group completed the criteria attaching to the grants and obtained the certifications from the local government. Apart from that, one of the conditions is that the Group is required to refund RMB60,000,000 to the city government if the Group fail to achieve a condition in year 2019. Management assessed the probability and concluded that the probability of failure of achieving the requirement is remote. Therefore, the Group recognised the full amount received as other income.

7 OTHER GAINS, NET

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Loss on deemed disposal of a subsidiary *(Note 9)*	**(18,091)**	–
Loss on disposal of plant and equipment	**(150)**	(795)
Fair value gains of derivative financial assets	**616,404**	17,746
Exchange gain/(loss), net	**11,100**	(11,840)
Others	**86**	(190)
	609,349	4,921

8 IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS NOT READY FOR USE

For the purposes of impairment testing, goodwill and capitalised development not ready for use have been allocated to three individual cash generating units ("CGU"), being 3 groups of subsidiaries operating in development and commercialisation of 1) jetpack products business ("Jetpack CGU"), 2) solar powered aircrafts business ("Aircrafts CGU"), and 3) SkyX unmanned aircraft business (SkyX CGU").

At the end of the reporting period, the Group engaged a qualified professional valuer (the "**Independent Valuer**"), who is not connected with the Group, to determine the recoverable amount of HK$88,475,000 related to the Jetpack products business ("Jetpack CGU"). The recoverable amount of the Jetpack Related Assets has been determined based on a value-in-use calculation.

As the recoverable amount of the Jetpack Related Assets determined by the Independent Valuer is lower than their carrying values, an impairment loss amounting HK$159,874,000 (2016: HK$Nil) was recognised in the condensed consolidated statement of profit or loss and other comprehensive income in the six months ended 30 June 2017.

9 DEEMED DISPOSAL OF A SUBSIDIARY

On 3 April 2015, the Company and Solar Ship Inc. ("Solar Ship") entered into an investment agreement, pursuant to which upon Solar Ship fulfilling certain conditions ("Solar Ship Conditions"), the Company will subscribe for 79,070 new common shares in Solar Ship, representing approximately 37.77% of the outstanding common shares in Solar Ship for consideration of CAD17,000,000. Also on the same day, the Company and Solar Ship entered into an option agreement, pursuant to which the Company was granted the option ("Option") exercisable by the Company during the period from the completion of Solar Ship Conditions to 15 October 2016 to subscribe for 116,279 additional common shares in Solar Ship for consideration of CAD25,000,000 (equivalent to approximately HK$156,158,000), which will result in the Company holding approximately 54.42% of the outstanding common shares in Solar Ship. The dilution effect of the convertible debenture and outstanding share options issued by Solar Ship is insignificant to the Company's shareholding in Solar Ship.

On 29 May 2015, the Solar Ship Conditions were fulfilled. As a result, the Company subscribed for 79,070 new common shares in Solar Ship at the subscription money of CAD17,000,000 (equivalent to approximately HK$106,085,000), representing 37.77% of the outstanding common shares of Solar Ship. During the year ended 31 December 2016, it is agreed between the Company and Solar Ship that the latest date for exercising the Option shall be extended from 15 October 2016 to 15 January 2017. As at 31 December 2016, the Company still had the right to exercise the Option. Accordingly, Solar Ship was still a subsidiary of the Company.

On 15 January 2017, the Company did not exercise the Option and hence the Option lapsed. The investment in Solar Ship was derecognised as the subsidiary and become an associate of the Group on the date of option expired. A loss of approximately HK$18,091,000 was recognised in the condensed consolidated statement of profit or loss and other comprehensive income.

10 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Current income tax expense		
Hong Kong profits tax *(Note (i))*	**–**	–
PRC Corporate Income Tax *(Note (ii))*		
– Over-provision in prior years	**(6,280)**	–
– Current period	**5,394**	16,189
	(886)	16,189
Deferred income tax expense	**92,461**	(13)
	91,575	16,176

Note:

(i) No Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the period (2016: Nil).

(ii) The PRC Corporate Income Tax represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the PRC in which the Group operates.

The tax rate applicable to subsidiaries in the PRC is 25% (2016: 25%), except for PRC subsidiaries established in Qianhai and a PRC subsidiary that was approved as High and New Technology Enterprise which is subject to PRC Corporate Income Tax at rate at 15% for the period (2016: 15%).

11 DIVIDEND

No dividend was paid, declared or proposed by the Company during the period (2016: Nil).

12 EARNINGS PER SHARE

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

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Profit attributable to owners of the Company for the purpose of basic earnings per share	**464,058**	105,529
Effect of dilutive potential ordinary shares:		
– Conversion rights	**–**	(33,782)
Profit attributable to owners of the Company for the purpose of diluted earnings per share	**464,058**	71,747

	Unaudited Six months ended 30 June	
	2017	2016
	No. of share '000	*No. of share '000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,038,863**	5,713,734
Effect of dilutive potential ordinary shares:		
– Preferred shares	**–**	375,667
– Share options of the Company	**8,027**	23,096
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,046,890**	6,112,497

	Unaudited Six months ended 30 June	
	2017	2016
Basic earnings per share (HK cents per share)	**7.68**	1.85
Diluted earnings per share (HK cents per share)	**7.67**	1.17

For the six months ended 30 June 2017 and 2016, the computation of diluted earnings for 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.

13 DERIVATIVE FINANCIAL ASSETS

	Derivative-share swap	**Derivative-subscription right of convertible securities**	**Derivatives right of shares of KCT**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Carrying value at 1 January 2017	7,674	–	791,238	798,912
Change in fair value recognised in profit or loss	–	–	616,404	616,404
Derecognised upon exercise of subscription right	–	–	(1,419,691)	(1,419,691)
Exchange difference	–	–	12,049	12,049
Carrying value at 30 June 2017	7,674	–	–	7,674
Carrying value at 1 January 2016	20,116	31,184	–	51,300
Change in fair value recognised in profit or loss	10,310	7,436	–	17,746
Derecognised upon exercise of underlying options	(22,396)	(38,620)	–	(61,016)
Carrying value at 30 June 2016	8,030	–	–	8,030

14. AVAILABLE-FOR-SALE INVESTMENTS

	Unaudited 30 June 2017	Audited 31 December 2016
	HK$'000	*HK$'000*
Unlisted securities:		
– Equity securities	**120,776**	29,040
Listed securities:		
– Equity securities	**1,546,301**	–
	1,667,077	29,040

(i) Beyond Verbal Communication Ltd

In September 2016, the Company and Beyond Verbal Communication Ltd. ("Beyond Verbal") entered into a framework agreement ("Beyond Framework Agreement"), pursuant to which Beyond Verbal agreed to issue the Company a convertible loan amounted to USD3,000,000 (the "Beyond Convertible Loan") which has been converted into 60,779 preferred A shares and 2,508 preferred A-1 shares during the year ended 31 December 2016.

As at 31 December 2016, the Company holds 60,779 preferred A shares of Beyond Verbal which are currently convertible into 60,779 ordinary shares of Beyond Verbal, representing 19.9% of the number of ordinary and preferred A shares in issue as at 31 December 2016. The Company also holds 2,508 preferred A-1 shares of Beyond Verbal without voting right. In accordance with Beyond Verbal's Articles of Association, the Company's maximum holdings of voting shares of Beyond Verbal's issued share capital is up to 19.9%. The directors of the Company consider the Company has no significant influence over Beyond Verbal as it has only less than 20% voting right and no right to appoint any director of Beyond Verbal. The investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair values cannot be measured reliably.

(ii) Gilo Industries Group Limited

In January 2017, Advance Summit Limited ("Advance Summit"), a wholly-owned subsidiary of the Company, and Gilo Industries Group Limited ("Gilo") entered into the Investment Agreement. Pursuant to the Investment Agreement, Advance Summit will (i) subscribe for new capital of Gilo; and (ii) acquire certain existing ordinary shares of Gilo.

The investment comprised of three tranches. Upon obtaining all approvals required under the relevant foreign exchange laws and regulations of the PRC, the first tranche of investment will be made in the form of subscription of new ordinary shares of Gilo, representing approximately 19.14% of the enlarged issued capital of Gilo, at a consideration of GBP9,467,456 (equivalent to approximately HK$91,756,000). 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 and acquisition of existing ordinary shares of Gilo at a consideration of GBP1,751,480. Upon the completion of the second tranche of investment, Advance Summit 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.

As at 30 June 2017, the Group held approximately 19.14% of the issued share capital of Gilo.

(iii) Kuang-Chi Technologies Co., Ltd.

On 25 March 2015, the Group entered into a subscription agreement with Kuang-Chi Technologies Co., Ltd. ("KCT", formerly known as "Zhejiang Longsheng Automotive Parts Stock Limited Corporation (浙江龍生汽車部件股份有限公司)), which listed on the Shenzhen Stock exchange, pursuant to which KCT conditionally agreed to issue, and the Group conditionally agreed to subscribe for 42,075,736 new shares of KCT at the consideration of RMB300,000,000 (equivalent to approximately HK$345,000,000). On 11 November 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. On 13 February 2017, the Group recognised a gain of HK$616,404,000 upon the conversion of derivative. The new shares was listed on the Shenzhen Stock Exchange on February 13, 2017 and was recognised as available-for-sale financial assets on the same day.

15 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2017 *HKD'000*	Audited 31 December 2016 *HKD'000*
Trade receivables	**346,125**	326,994
Less: provision for impairment of trade receivables	**–**	–
Trade receivables - net	**346,125**	326,994
Deposits and other receivables	**37,886**	11,948
Interest receivables	**2,869**	4,049
Prepayment for advertising	**8,137**	10,971
Prepayment for suppliers	**36,786**	42,870
Earnest monies paid *(note a)*	**–**	126,354
Prepaid consultancy fee *(note b)*	**9**	5,141
Deposits paid for acquisition of plant and equipment	**20,700**	25,634
	452,512	553,961
Less: Non-current deposits and prepayment	**(23,412)**	(31,023)
Current portion	**429,100**	522,938

Notes:

(a) As at 31 December 2016, it represented earnest monies paid for two investment projects, which are interest free and refundable. During the Period, the entire amount was fully refunded.

(b) As at 31 December 2016, the amount of HK$5,141,000 represented a prepayment made to a consultancy company for providing investment opportunity. During the Period, the entire amount was fully refunded. As at 30 June 2017, the amount of HK$9,000 represented a prepayment made to another consultancy company.

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

	Unaudited 30 June 2017 *HKD'000*	Audited 31 December 2016 *HKD'000*
0 – 30 days	**81,740**	6,810
31 – 60 days	**–**	–
61 – 90 days	**–**	–
91 – 180 days	**7,015**	–
181 – 365 days	**155,250**	221,047
Over 365 days	**102,120**	99,137
	346,125	326,994

16 SHARE CAPITAL

Ordinary shares	**Number of shares** *'000*	**Equivalent to** *HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017	7,316,667	73,167
Issued and fully paid:		
At 1 January 2016	5,713,734	57,137
Issuance of ordinary shares upon conversion of preferred shares *(Note)*	375,667	3,757
At 30 June 2016 and 1 January 2017	6,089,401	60,894
Issuance of ordinary shares upon exercise of share options	20,547	205
At 30 June 2017	6,109,948	61,099

Preferred shares	**Number of shares** *'000*	**Equivalent to** *HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each		
At 30 June 2016, 1 January 2017 and 30 June 2017	2,683,333	26,833
Issued and partially fully paid:		
At 1 January 2016	375,667	3,757
Conversion of preferred shares *(Note)*	(375,667)	(3,757)
Issued and fully paid of HK$0.01 each		
At 30 June 2016, 1 January 2017 and 30 June 2017	–	–

Note:

During the six months ended 30 June 2016, the Group received notices from the relevant holders of the fully paid preferred shares to convert the 375,666,666 fully paid preferred shares into ordinary shares. The amount transferred from preferred share capital to ordinary share capital was approximately HK$3,757,000, and at the same time, HK$26,281,000 was transferred from the share premium-preferred share account to the share premium ordinary share account).

17 TRADE, OTHER PAYABLES AND DEFERRED REVENUE

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

	Unaudited 30 June 2017 ***HK$'000***	Audited 31 December 2016 *HK$'000*
Trade payables		
0 - 90 days	**7,550**	45,558
Over 90 days	**29,148**	–
	36,698	45,558
Deferred revenue *(Note a)*	**10,350**	73,682
Deposit received	**3,105**	67
Accrued salaries	**7,797**	33,650
Other payables and accruals	**12,329**	35,209
Other tax payables *(Note b)*	**89,319**	73,783
Interest payables	**314**	602
Receipt in advance *(Note c)*	**21,864**	98,969
	181,776	361,520

Notes:

(a) As at 30 June 2017, the balance represented (i) deferred government grants amounting RMB9,000,000 (equivalent to HK$10,350,000) received from the local government and the government's assessment over the criteria attaching to the grants was not completed.

(b) As at 30 June 2017, other tax payables mainly included value-added tax payables amounting to HK$80,025,000 (31 December 2016: HK$66,217,000) arising from the sale of Clouds.

(c) As at 30 June 2017 and 31 December 2016, it represented prepayments 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 end of the reporting period.

18 BANK AND OTHER BORROWINGS

	Unaudited 30 June 2017 *HK$'000*	Audited 31 December 2016 *HK$'000*
Secured bank borrowings: (Note a)		
Current	**264,828**	264,147
Secured other borrowings: (Note b)		
Non-current	**345,000**	–

Note a:

As at 30 June 2017, there were two bank borrowings carried interest at one-month Hong Kong Interbank Offer Rate ("HIBOR") plus a margin 1.6% and three-month London Interbank Offer Rate ("LIBOR) plus a margin of 1.05%, with interest ranging from 1.93% to 2.22% per annum (2016: ranging from 1.93% to 2.1% per annum). Balance as at 30 June 2017 was guaranteed by companies controlled by Dr. Liu R (2016: guaranteed by companies controlled by Dr. Liu R).

Note b:

As at 30 June 2017, there was a borrowing from a financial institution mature until 2020 amounting to RMB300,000,000 and carried interest at 6.5% per annum (2016: Nil). The Group pledged the equity securities amounting to approximately RMB1,344,610,000 to the financial institution as at 30 June 2017.

The Group's borrowings were repayable as follows:

	Unaudited 30 June 2017 *HK$'000*	Audited 31 December 2016 *HK$'000*
Within 1 year	**264,828**	264,147
Between 1 and 2 years	**–**	–
Between 2 and 5 years	**345,000**	–
	609,828	264,147

19 COMPARATIVE FIGURES

The comparative figures of other income and finance income including income from bank balance, structured deposits and time deposits have been reclassified in conformity with the current period's financial statement presentation. There do not have financial impact on the current period.

20 SUBSEQUENT EVENT

After communication with 深圳光啟合眾科技有限公司("KuangChi Hezhong", together with its subsidiaries, the "KuangChi Group"), 深圳光啟互聯技術投資合夥企業（有限合夥）("KuangChi Connection Technology" a substantial investor of which has officially become one of the strategic investor of China United Network Communications Limited) ("Unicom A Share Company") under its mixed ownership reform plan, as the businesses carried out by KuangChi Connection Technology are highly correlated to and complementary with the principal businesses of Unicom A Share Company, an it is a leading vertical company in the industry. The total investment is amounted to RMB4 billions, represented 1.88% of the enlarged Share Capital in issue of Unicom A Share Company.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW AND PROSPECTS

The Company and its subsidiaries are 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 Period, the Company and its subsidiaries recorded a total income of HK$259,366,000, comprising income of HK$190,735,000 and other income of HK$68,631,000. Net profit was HK$385,030,000, increased by 4.9 times as compared to the same period of last year. Basic earnings per share increased to 7.68 HK cents.

The Future Technology Business – in-depth development of vertical sectors

The Company and its subsidiaries put their focus on the Future Technology Business. Currently, they are committed to building future smart cities by developing and integrating different future technologies, including "future space" technology and "future artificial intelligence (AI)" technology. Such technology will allow them to provide a comprehensive range of innovative products, services and solutions, thereby enhancing service efficiency, satisfying residents' needs, upgrading living quality and, in particular, solving various problems that are faced by human beings. Specifically, their objectives can be categorized into three aspects, namely safety, sustainability and space utilisation. On safety, they focus on emergency response and disaster recovery. On sustainability, they emphasise on environmental protection. On space utilisation, they include solution deliveries on communication and connecting services.

In terms of the "future space" technology business, during the Period, the subsidiary of the Company entered into the contract for the "Cloud" project in the first half of 2017, marking a milestone in its development. During the same period, the Company and its subsidiaries further expanded and enriched the product lines of the future space business, invested in the field of low-flying aerostats and launched two low-flying aircraft, namely "SkyX" and "H1". In addition, major breakthroughs were achieved in the field of individual jetpack, as the "KuangChi Martin Jetpack" gradually entered the commercial market and continuously explored the PRC market and new business model to establish presence in the industry, optimised and carried out repetitive functionality tests. The management remained optimistic about the new business model and expansion of product applications of the "KuangChi Martin Jetpack" in the future and will further explore the development and applications of the product in the PRC future flight experience and the emergency and fire safety market. Meanwhile, in order to promote the in-depth exploration of the vertical sectors in different industries, the Company and its subsidiaries strategically invested in Gilo Industries Group ("Gilo"), a company engaged in the research and development and manufacturing of aviation and aerospace technology and solutions, for the joint research and development and enhancement of the future space technology and speeding up the process of product commercialisation. The Company and its subsidiaries also made progress in the technology and commercialisation of other flying apparatus. In particular, the low-cost and green cargo aircraft "Solar Ship" successfully entered the market, while the near-space flying apparatus "Traveller III" is undergoing installation test.

With its "future AI" technology business, the Company and its subsidiaries took forward the positioning and planning of the AI industry. As statistics show, the global market for AI applications will reach USD127.0 billion in total in 2025. In July 2017, China's State Council issued the "Development Plan for the New Generation of AI", which formulated and planned the country's AI development strategy. By guiding social capital to support the growth of the AI industry, it set the target to bring the core AI industry to a size of RMB150 billion and drive related industries to a size that exceeds RMB1,000 billion in 2020. In view of the global and national policy trends, the Company and its subsidiaries established its presence in the AI industry and independently developed AI applications for security and surveillance, industrial visual, public transport and smart home during the Period. In the meantime, it continued to promote the application of voice recognition, open structure and video analytics identification along with other products and solutions in the pharmaceutical industry and smart cities. It also invested in Agent Video Intelligence ("Agent VI"), an Israeli video analytics solution provider, and Beyond Verbal Communications Ltd. ("Beyond Verbal"), a health and emotions analytics solution provider, and assisted their development in the PRC pharmaceutical market as well as the establishment of smart cities.

Further development and operation of the "Cloud" project to provide space information platform for different cities

As a flying application platform of smart cities, the "Cloud" combines communication, optical remote sensing, surveillance and monitoring through internet-of-things, big data collection and analysis and other functions. It also has heavy loading capacity and extensive coverage. The construction of the integrated space-earth network platform for smart cities will accelerate the development of emerging industries including civil aviation and aerospace, internet-of-things, big data and innovative smart cities system.

During the Period, the "Cloud" project completed all works for different stages. The new application areas of the "Cloud" project in the new bases included: geological hazard monitoring and warning system, meteorological data collection system, monitoring of unauthorised construction and monitoring of straw incineration. Besides, the "Cloud" project in the new base is actively communicating with the administrative units and department for exploring and cooperating in city security management, anti-terrorism and riot control, major dam monitoring, comprehensive forest monitoring and large event management.

During the Period, the completed "Cloud" project completed construction and operated steadily, thereby providing various applications and services to different cities on an ongoing basis. At the same time, the completed "Cloud" project carried out in-depth cooperation and follow up with local authorities. They planned to roll out emergency data analysis, traffic survey, urban traffic monitoring and monitoring of water levels in reservoirs and other applications in the second half of 2017, which will provide big-data for city administrators on city surveillance, ecological monitoring and emergency communication. In the meantime, the completed "Cloud" project have joined hands with the local public security department in security and surveillance to establish demonstrative applications for smart cities. They also cooperated with local information network enterprises in projects for jointly completing the green application demonstration proposal, thereby making active contribution to the government and society's initiative in building a green smart city.

During the Period, the "Cloud" also solved the problems of communication breakdown, failure of communication with the command centre, failure of passing orders in mountainous regions and areas at higher altitude, while expanding the applications in anti-terrorism and security. The "Cloud" project is planned to carry out drills with the relevant authorities in the second half of 2017. The management is of the view that the "Cloud" project will have a huge demand and promising prospects in the public security market.

Enriched the product offering of the low-flying aircraft series, with "SkyX" reached the commercialisation stage, while "H1" completed research and development and began product testing

The "SkyX" project focuses on the development of unmanned aircraft for energy pipeline inspection and the automation remote solutions for unmanned aircraft. Its research and development covers unmanned aircraft "SkyOne", multifunctional helipad "xStation", as well as the aircraft management system "SkyOS". The unmanned aircraft "SkyOne" is capable of vertical take-off and high-speed cruising. It costs little energy and is highly efficient. Meanwhile, the ground relay station and self-manufactured charging facility of the multifunctional helipad "xStation" allow the unmanned aircraft to operate for long hours and distances so as to cover large areas by relaying. The unmanned aircraft management system "SkyOne", which collects and analyses data and information from monitoring, provides a reliable aerial platform for oil pipelines patrol, powerline patrol, border patrol, island patrol and other applications.

During the Period, the unmanned aircraft "SkyOne" has undergone successful product technology and functionality upgrade, and reached the industrialisation and delivery stage. The multifunctional helipad "xStation" has finished set-up and entered the commercialisation stage following the completion of application trials with the unmanned aircraft "SkyOne" in Canada in June 2017. In order to explore the PRC market, the "SkyX" project has formed a research team in China in preparation for product industrialisation and secondary development. It is expected to establish a laboratory with domestic petrochemical enterprises and power grid companies in the second half of 2017, where it would further study and promote the future commercialisation of "SkyX".

The "H1" tethered unmanned aircraft is an aerial surveillance and relay platform system equipped with heavy loading capacity, tethering equipment and multiple blades. It has long flight endurance, high loading capacity and excellent mobility. The applications are mainly city security monitoring, traffic monitoring, live match broadcasting, high-voltage cables patrol, maritime applications, border patrol, resorts and forest preservation.

During the Period, "H1" has completed the research and development works. It will supply products mainly for police and security use and is planned to conduct product testing and trials with public security authorities.

Strategic investment in Gilo, a company engaged in researching and developing aviation and aerospace technology solutions, with the aim of enhancing future space technology

In order to expand and expedite the commercialisation and industrialisation of the space technology and products, the subsidiary of the Company cooperated with Gilo, a UK company specialising in researching and developing aviation and aerospace technology and solutions, during the Period. The cooperation aimed at enhancing the flight performance of the future space technology product line and accelerating its commercialisation through jointly developing future space technology and service solutions and putting into practice the advanced engine technology and manufacturing applications in the product line of the Company and its subsidiaries. Gilo is principally engaged in the research and development and manufacturing of aviation and aerospace technology and solutions with a focus on the research and development and manufacturing of innovative engine technologies. Its engine products are used in unmanned aircraft, power umbrella, paraglider, flying car and rotation-powered bicycles, providing ground-breaking solutions for civil, commercial and recreational aviation and aerospace applications. For the second half of 2017, the subsidiary of the Company planned to cooperate fully with Gilo on the technology, product and innovation aspects in relation to the future space technology, with the view of jointly developing and expediting the commercialisation and industrialisation process of space technology and products.

Initiated the product weight reduction project for better flight performance and planned the launch of the "KuangChi Martin Jetpack" onto China's flight experience and emergency and fire safety market

During the Period, the P14 unmanned version of the "KuangChi Martin Jetpack" completed the first free flight. The Series 1 jetpack has completed the weight reduction project to enhance battery life. During the Period, "KuangChi Martin Jetpack" actively explored the Chinese market and planned to construct "Future Valley" in Beijing, Chengdu, Hangzhou and Zhangjiajie, China and offered personal flight experience and flight performance entertainment to tourists. In the meantime, the "KuangChi Martin Jetpack" planned to enter the emergency and fire safety market in China and cooperated with the fire stations of various cities in fire safety, emergency and rescue projects.

Implemented multi-dimensional business expansion, introduced strategic partnership and carried out in-depth vertical exploration to create a blue ocean

The Company and its subsidiaries explores the demand and application in different sectors, pursues the expansion and diversification of the future city business, actively introduces strategic partnership and thoroughly explores vertical sectors, so as to offer solution and value for comprehensive city application. The future space business is centring on the "Cloud" big data platform and its operation and control centre, which provide support to overall city management and decision-making, and connect vertical sectors through big data.

During the Period, Shenzhen Kuangchi Connection Technology Investment Limited Partnership (深圳光啟互聯技術投資合夥企業) ("Kuangchi Connection Technology"), a subsidiary of Shenzhen Kuang-Chi Hezhong Technology Limited ("Kuang-Chi Hezhong"), which was controlled by the Company, invested in the mixed ownership reform plan of China United Network Communications Limited ("Unicom A Share Company"). A total investment of RMB4 billion was made, representing 1.88% of the enlarged share capital in issue of Unicom A Share Company. The businesses carried out by the Company and its subsidiaries are highly complementary with the businesses of Unicom A Share Company, and have established leading positions in the vertical market. The Company and its subsidiaries expect to enhance communication with Unicom A Share Company and, with the advantage in such business technology areas as internet of industry, smart cities, home internet, big data and AI, explore the possibility of thorough cooperation between the two parties.

In addition, the Company and its subsidiaries have entered into the strategic cooperation framework agreement with Shenzhen Bus Group Company Limited, in relation to the strategic cooperation in areas including public security of the road-based public transport system, intelligent operations, integrated comprehensive platform construction and setting up of a joint venture through equity cooperation. Through the strategic cooperation framework agreement, both parties can build a win-win and sustainable strategic partnership relationship, which will procure the cooperation in public transport safety and integrated intelligent operation platform, promote the in-depth integration between the public transport market and new technologies such as AI, Internet of Things, cloud platform and big data analysis, expedite the realisation of smart transportation and the further building of smart city, and work together in the incubation and nurturing of the value-added market in relation to the road-based public transport industry.

Furthermore, the Company and its subsidiaries established the public safety and rescue platform through developing future space business at different altitude levels. This not only provided comprehensive solutions of city control and riot control, disaster relief and rescue, and patrol and security, but also realised people's aviation dream and facilitated vertical exploration in the field of space technology. From the perspective of new materials development, the investment in an aircraft engine technology company, namely Gilo, by the subsidiary of the Company offered ground-breaking solutions for civil, commercial and leisure aviation and aerospace development.

Manpower development

With regard to staff development, the Company strengthened the talent nurture system and designed new employee development system and mechanism to enhance staff quality. The Company and its subsidiaries will adopt the core strategy to continue to attract and nurture high-calibre employees, while introducing talents on space technology and AI at a global level. During the Period, the Company and its subsidiaries brought in 357 experts on high and new technology from around the world and 35% of its researchers were with master's degree or above. This has provided a strong talent foundation that in turn strengthened their core competitiveness.

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. 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.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2017 (2016: Nil).

CAPITAL STRUCTURE

As at 30 June 2017, the Group had a registered and issued ordinary share capital of approximately HK$61,099,000.

As at 30 June 2017, the Group had bank and other borrowings of approximately HK$609,828,000 (as at 31 December 2016:HK$264,147,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group's total shareholders' funds amounted to approximately HK$2,940,075,000 (31 December 2016: HK$2,729,711,000). Total assets was approximately HK$3,949,316,000 (31 December 2016: HK$3,504,108,000) and total liabilities was approximately HK$1,009,241,000 (31 December 2016:HK$774,397,000).

As at 30 June 2017, the Group had bank balances and cash of approximately HK$1,154,928,000 (31 December 2016: HK$870,558,000) time deposit of approximately HK$195,378,000 (31 December 2016: HK$252,005,000) and the Group had no structured bank deposits (31 December 2016: HK$13,397,000). The gearing ratio as of 30 June 2017, defined as the percentage of the total interest bearing debt, including bank and other borrowings of approximately HK$609,828,000 (31 December 2016: HK$264,147,000) and no convertible debenture (31 December 2016: HK$6,584,000) to net asset value, was approximately 20.7% (31 December 2016: 9.91%).

The Group's business operations and investments are located in the PRC, Hong Kong, New Zealand and Canada. As at 30 June 2017, cash and cash equivalents denominated in local currency and foreign currencies mainly included HK$314,358,000, RMB167,475,000, NZD5,776,000, USD73,374,000 and CAD5,450,000 (31 December 2016: HK$112,159,000, RMB332,996,000, NZD17,324,000, USD66,234,000 and CAD7,881,000) respectively. The outstanding balances of borrowings included HKD160,230,000, USD13,400,000 and RMB300,000,000 (31 December 2016: 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 HKD, RMB, NZD and CAD. 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.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

Investment in Gilo Industries Group Limited (Gilo)

On 16 January 2017, Advance Summit Limited ("Advance Summit"), a wholly-owned subsidiary of the Company, has entered into an investment agreement with Gilo.

Pursuant to the Investment Agreement, Advance Summit will (i) subscribe for new capital of Gilo; and (ii) acquire certain existing ordinary shares of Gilo. The Investment will be comprised of three tranches. Upon obtaining all approvals required under the relevant foreign exchange laws and regulations of the PRC, the first tranche of investment will be made in the form of subscription of new ordinary shares of 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, Advance Summit 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).

Completion of the Subscription and the Acquisition is subject to the fulfillment or waiver of the conditions set out in the Investment Agreement. Gilo will use its best endeavours to ensure that all conditions are satisfied as soon as reasonably practicable and in any event on or before 31 December 2019.

Upon completion of the Subscription and the Acquisition, Advance Summit will hold approximately 39.06% of the enlarged issued share capital of Gilo.

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 1,850,810 preferred shares of SkyX which are currently convertible into 1,850,810 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 64.9% of the ordinary share capital of SkyX when all the 1,850,810 preferred shares are converted based on the number of ordinary shares in issue as at 30 June 2017. Upon the Company's purchase and conversion of the additional 148,368 preferred shares of SkyX upon Satisfaction of SkyX Conditions, the Company's shareholding in SkyX will be approximately 66.7%, based on the number of ordinary shares in issue as at 30 June 2017.

Saved as disclosed above, 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.

KC Subscription in Kuang-Chi Technologies Co., Ltd. ("KCT", formerly known as "Zhejiang Longsheng Automotive Parts Stock Limited Corporation (浙江龍生汽車部件股份有限公司))

On 25 March 2015, the Group entered into a subscription agreement with KCT, which listed on the Shenzhen Stock exchange, pursuant to which KCT conditionally agreed to issue, and the Group conditionally agreed to subscribe for 42,075,736 new shares of KCT at the consideration of RMB300 million (equivalent to approximately HK$345,000,000). On 11 November 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. The new shares was listed on the Shenzhen Stock Exchange on February 13, 2017 and was recognised as available-for-sale financial assets on the same day.

Impairment assessment related to Martin Aircraft Company Limited

As stated in the announcement of Martin Aircraft Company Limited ("MACL") dated 28 August 2017, it was expected that it would not complete the 2017 annual audit for the year ended 30 June 2017 (the "2017 Annual Audit") on time, and complete and submit the audited financial statements for the year ended 30 June 2017 ("2017 Annual Financial Statements") to the Australian Securities Exchange on or before 31 August 2017. Thus, the trading of MACL may be automatically suspended from 31 August 2017 until the 2017 Annual Financial Statements are submitted to the Australian Securities Exchange. Given that MACL was not able to provide its 2017 Annual Financial Statements to the Group on time, the Board of the Company, based on the principle of prudence, immediately sought professional advice (including appointment of independent valuer in Hong Kong) once the announcement of MACL dated 28 August 2017 was posted. The independent valuer has performed impairment testing on the goodwill and intangible assets of the Jetpack products business. The independent valuer intended to evaluate the market conditions in China and the international market for the products and businesses of MACL, however, given the short period of time, the Group was not able to obtain sufficient information on the forecast of international sales of MACL on a timely basis, hence it could only arrive at the valuation results by assessing the market conditions in China. The Group is of the view that the assessment is practical and conservative, therefore, it accepts the valuation results as the basis of impairment test on MACL.

Based on the valuation report, the recoverable amount of the Jetpack products business is lower than the carrying value. Hence, the Group made a provision for impairment of goodwill and intangible assets totaling approximately HK$159,874,000 in the condensed consolidated statement of profit or loss for the period ended 30 June 2017. The above recoverable amount may be subjected to the outcome of discussion between MACL and its auditor in relation to the 2017 Annual Audit.

CHARGES ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2017, certain assets of the Group were pledged to secure banking facilities granted to the Group and obligation under finance lease as follows:

	30 June 2017 *HK$'000*	31 December 2016 *HK$'000*
Pledged equity securities	**1,546,301**	–
	1,546,301	–

As at 30 June 2017, the Group had no significant contingent liabilities (31 December 2016: Nil).

CAPITAL COMMITMENT

As at 30 June 2017, the Group has capital commitments as below:

	30 June 2017 *HK$'000*	31 December 2016 *HK$'000*
Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of the acquisition of plant and equipment	**268,533**	253,107
	268,533	253,107

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Practices

The Board acknowledges the importance of the highest standards of corporate governance as the Board believes 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 controls and accountability to all shareholders.

Throughout the period under review, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (the "CG Code"), except for the deviations from the code provisions A.6.7. Code provisions A.6.7 stipulate that independent non-executive directors should attend the annual general meeting. Dr. Wong Kai Kit, an independent non-executive director, did not attend the general meeting held during the Period owning to other business commitments. The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the directors. All directors have confirmed, followed by specific enquiry procedures by the Company, that they had complied with the requirements as set out in the Model Code throughout the Period.

Purchase, Sale or Redemption of Listed Securities

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

Review of Interim Results

The interim results for the six-month period ended 30 June 2017 have been reviewed by the Company's Audit Committee. The Audit Committee meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group, the risk management and internal control systems, and the financial reporting matters.

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

Hong Kong, 31 August 2017

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