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KUANGCHI SCIENCE LIMITED

光啟科學有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)

**(1) INSIDE INFORMATION ANNOUNCEMENT
REVISION OF PUBLISHED INTERIM RESULTS ANNOUNCEMENT FOR
THE SIX MONTHS ENDED 30 JUNE 2017**

**(2) SUPPLEMENTAL ANNOUNCEMENT ON
PUBLISHED INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

This announcement is made by KuangChi Science Limited (the “**Company**”) and its subsidiaries pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Reference is made to the announcement dated 31 August 2017 of the Company (the “**Interim Results Announcement**”) in relation to the interim results of the Company and its subsidiaries for the six months ended 30 June 2017 and the announcement dated 19 September 2017 of the Company (the “**Further Provision Announcement**”) in relation to further provision for impairment of intangible assets. Unless otherwise stated, definitions and terms used herein shall bear the same meanings as defined in the Interim Results Announcement.

I. REVISION OF INTERIM RESULTS ANNOUNCEMENT

As mentioned in the Further Provision Announcement, the Company will announce the restated condensed consolidated interim financial statements of the Company and its subsidiaries for the six months ended 30 June 2017 as soon as possible after MACL's 2017 Annual Financial Statements are finalized.

Set out below is a reconciliation of the condensed consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries for the six months ended 30 June 2017 and the condensed consolidated statement of financial position of the Company and its subsidiaries as at 30 June 2017 and a related note thereto before and after making further provision for impairment and derecognition of intangible assets of the Jetpack products business, based on MACL's finalized 2017 Annual Financial Statements.

	As previously reported	Revisions	As restated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Research and development expenses	(188,420)	(35,407)	(223,827)
Profit before tax	476,605	(35,407)	441,198
Income tax expense	<u>(91,575)</u>		<u>(91,575)</u>
Profit for the period	<u>385,030</u>	(35,407)	<u>349,623</u>
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translating foreign operations	52,045	(3,425)	48,620
Fair value loss of an available-for-sale investment	<u>(235,730)</u>		<u>(235,730)</u>
Total comprehensive income for the period	<u>201,345</u>	(38,832)	<u>162,513</u>
Profit for the period attributable to:			
Owners of the Company	464,058	(18,415)	445,643
Non-controlling interests	<u>(79,028)</u>	(16,992)	<u>(96,020)</u>
	<u>385,030</u>	(35,407)	<u>349,623</u>
Total comprehensive income attributable to:			
Owners of the Company	280,345	(21,840)	258,505
Non-controlling interests	<u>(79,000)</u>	(16,992)	<u>(95,992)</u>
	<u>201,345</u>	(38,832)	<u>162,513</u>
Earning per share			
Basic (HK cents per share)	<u>7.68</u>		<u>7.38</u>
Diluted (HK cents per share)	<u>7.67</u>		<u>7.37</u>

AT 30 JUNE 2017

	As previously reported <i>HK\$'000</i>	Revisions <i>HK\$'000</i>	As restated <i>HK\$'000</i>
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Plant and equipment	162,486	(1,264)	161,222
Intangible assets	45,139	(37,568)	7,571
Total non-current assets	2,062,037	(38,832)	2,023,205
TOTAL ASSETS	<u>3,949,316</u>	(38,832)	<u>3,910,484</u>
	As previously reported <i>HK\$'000</i>	Revisions <i>HK\$'000</i>	As restated <i>HK\$'000</i>
CAPITAL AND RESERVES			
Share capital	61,099		61,099
Reserves	<u>2,751,618</u>	(21,840)	<u>2,729,778</u>
Equity attributable to owners of the Company	2,812,717	(21,840)	2,790,877
Non-controlling interests	<u>127,358</u>	(16,992)	<u>110,366</u>
TOTAL EQUITY	<u>2,940,075</u>	(38,832)	<u>2,901,243</u>
TOTAL EQUITY AND LIABILITIES	<u>3,949,316</u>	(38,832)	<u>3,910,484</u>

Note 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		
	As		
	previously	Revisions	As restated
	reported	HK\$'000	HK\$'000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to owners of the Company for the purpose of basic earnings per share	464,058	(18,415)	445,643
Effect of dilutive potential ordinary shares:			
– Conversion rights	—		—
	<u>—</u>		<u>—</u>
Profit attributable to owners of the Company for the purpose of diluted earnings per share	<u>464,058</u>	(18,415)	<u>445,643</u>
			Unaudited
			Six months
			ended
			30 June
			2017
			<i>No. of share</i>
			<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share			6,038,863
Effect of dilutive potential ordinary shares:			
– Preferred shares			—
– Share options of the Company			8,027
			<u>8,027</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share			<u>6,046,890</u>
			Unaudited
	As		
	previously		
	reported		As restated
Basic earnings per share (HK cents per share)	<u>7.68</u>		<u>7.38</u>
Diluted earnings per share (HK cents per share)	<u>7.67</u>		<u>7.37</u>

The above revisions to the condensed consolidated interim financial statements of the Company and its subsidiaries were not reviewed or audited by the Company's auditor, but were approved and adopted by the Board and reviewed by the Audit Committee of the Company. Shareholders and potential investors of the Company should not rely on the financial statements as contained in the Interim Results Announcement, but may read them in conjunction with the revisions above.

II. SUPPLEMENTAL INFORMATION ON INTERIM RESULTS ANNOUNCEMENT

A. Impairment loss on goodwill and intangible asset

Reference is made to note 8 to the condensed consolidated interim financial statements of the Company and its subsidiaries in the Interim Results Announcement. In addition to the information disclosed in the Interim Results Announcement, the Company would like to provide the market with additional information in relation to the impairment loss below:

Impairment loss in relation to the Jetpack Products Business

The Company currently holds approximately 52% shareholding in MACL. Please refer to the Company's announcements dated 19 December 2014, 23 February 2015 and 29 February 2016 for details on the Company and its subsidiaries' investment in MACL.

MACL is a company registered in New Zealand with its shares listed on the Australian Securities Exchange under stock code MJP. MACL's principal business is the development and commercialisation of jetpack products, i.e. the Martin Jetpack, which is an optionally piloted hovering air vehicle. The Martin Jetpack is undergoing flight tests. As mentioned in the Interim Results Announcement, during the six months ended 30 June 2017, the Company and its subsidiaries have actively explored the Chinese market for the Martin Jetpack and planned to construct "Future Valley" in China and offered flight performance entertainment to tourists. At the same time, the Company and its subsidiaries planned to enter the emergency and fire safety market in China with Martin Jetpack.

As at 30 June 2017, the impairment loss is recorded to be HK\$159,874,000, consisting of (i) impairment loss of HK\$32,364,000 on goodwill and (ii) impairment loss of HK\$127,510,000 on intangible asset, as included as part of the research and development expenses, which was shown as "Provision for impairment of goodwill" and part of "Research and development expenses" in the reconciled condensed consolidated statement of profit or loss and other comprehensive income in the Interim Results Announcement. All expenses capitalised in intangible asset were originally research and development expenses, fulfilling the capitalisation criteria under the relevant Hong Kong Accounting Standards ("HKAS"). The Directors consider the impairment to be of research and development nature and should be included as part of the research and development expenses for the six months ended 30 June 2017.

The Independent Valuer has appraised the 100% interest in the Company and its subsidiaries' cash generating unit in connection to the Company and its subsidiaries' business of research, development and commercialization of jetpack products (the "**Jetpack Products Business**") on the basis of value in use. As disclosed in the Interim Results Announcement, 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 before publication of the Interim Results Announcement, the Company and its subsidiaries were 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 "**Valuation Results**"). The Company and its subsidiaries were of the view that the assessment is practical and conservative. Therefore, it accepted the Valuation Results as the basis of impairment test on the Jetpack Products Business.

"Value in use" is defined in Hong Kong Accounting Standard 36 - Impairment of Assets ("**HKAS36**") as the present value of the future cash flows expected to be derived from an asset or a cash-generating unit. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The value in use of the Jetpack Products Business is developed through the application of the income approach technique known as the discounted cash flow ("**DCF**") method. The DCF method consists of estimating future annual cash flows and individually discounting them to present value. The future annual cash flows are derived from a cash flow projection of the Jetpack Products Business (the "**Projection**") as furnished by the Company and examined by the Independent Valuer.

Key assumptions adopted in this valuation include:

- There will be no major changes in the existing political, legal, fiscal and economic conditions in the countries in which the Jetpack Products Business carries on its business;
- There will be no major changes in the current taxation law in the countries where the Jetpack Products Business operates, that the rates of tax payable will remain unchanged and that all applicable laws and regulations will be complied with;
- Effective tax rates, exchange rates and interest rates will not differ materially from those presently prevailing;
- There will be no material deviation or changes in the industry trends and market conditions which would significantly affect the revenues, profits, cash flows attributable to the Jetpack Products Business;
- The availability of finance will not be a constraint on the forecasted growth of operations of the Jetpack Products Business;

- The Jetpack Products Business will successfully maintain its competitiveness and market share through optimizing the utilization of its resources and expanding its marketing network;
- The Jetpack Products Business can keep abreast of the latest development of the industry such that its competitiveness and profitability can be sustained;
- The Jetpack Products Business will utilize and maintain its current operational, administrative and technical facilities to expand and increase its sales;
- The Jetpack Products Business will retain and have competent management, key personnel, and technical staff to support its ongoing operations; and
- The Projection has been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration by the management of the Company

Based on the valuation report issued by the Independent Valuer, the recoverable amount of the Jetpack Products Business is lower than its carrying value. As disclosed in the Interim Results Announcement and this announcement, in respect of the interim results for the six months ended 30 June 2017, the Independent Valuer intended to evaluate the market conditions in China and the international market for the products and businesses of MACL, which is consistent with the valuation basis for previous financial periods. However, given the short period of time before publication of the Interim Results Announcement, the Company and its subsidiaries were 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 without taking into account international sales, which makes the recoverable amount lower than the previous periods.

Based on the Valuation Results, the Company and its subsidiaries made a provision for impairment of goodwill and intangible assets totaling to approximately HK\$159,874,000, representing the difference between the recoverable amount and carrying value of the Jetpack Products Business, in the condensed consolidated statement of profit or loss for the six months ended 30 June 2017, which was subject to the outcome of discussion between MACL and its auditor in relation to MACL's 2017 Annual Audit, of which such annual audit was not yet completed as at the date of the Company's Interim Results Announcement.

Subsequently, as disclosed in the Further Provision Announcement, The Company was informed by the board of directors of MACL that, (i) with respect to the carrying value of MACL's intangible assets, the board of directors of MACL believes there is value inherent within the intangible assets. However, the value in use of MACL's intangible assets was determined with reference to future cash flows which are based on subjective and highly sensitive assumptions. MACL has therefore decided to take a prudent view and would fully impair the intangible assets of New Zealand dollars (NZ\$) 17.6 million (approximately HK\$97.6 million), and (ii) recognize NZ\$2.2 million (approximately

HK\$12.1 million) development costs as research and development expenses instead of as previously capitalised as intangible assets in MACL's consolidated management accounts provided to the Company because such development costs do not meet the intangible assets recognition criteria according to generally accepted accounting practice in New Zealand in MACL's 2017 Annual Financial Statements which was published on 21 September 2017. In view of the above, the Board of the Company has decided to make further provision for impairment and derecognition of intangible assets of the Jetpack products business. Please refer to the Further Provision Announcement for further details.

In addition to the information disclosed in the Further Provision Announcement, the Company would like to provide the market with additional information in relation to MACL's view regarding the abovementioned impairment.

Based on the Company's understanding and communication with MACL and the information as disclosed in the 2017 Annual Financial Statements of MACL, the Company believes that the abovementioned impairment was made in this financial year of MACL because MACL only commenced product flight testing in respect of the Jetpack during the six months ended 30 June 2017. MACL considers that the testing has shown that the current engine of the Jetpack is sufficient for test and capability demonstration purposes but reliability of such is not sufficient for sales to end users whereas for preceding financial year of MACL, the Jetpack was not ready for product flight testing and therefore there was no impairment indicator and no impairment was made.

Impairment loss in relation to the Aircrafts CGU

According to HKAS36, the Company shall test the asset for any impairment if any impairment indication exists except for intangible asset with an indefinite useful life or not yet available for use (i.e. products which are in development stage and not ready for use or sale) and goodwill, which should be tested for impairment annually.

Since all intangible asset not yet available for use and goodwill related to the Aircrafts CGU were tested for impairment as at 31 December 2016 and there was no impairment indicator as at 30 June 2017, the Directors considered no impairment test was to be performed for the Aircraft CGU. No impairment loss on Aircraft related assets was recognised during the six months ended 30 June 2017.

Impairment loss in relation to the SkyX CGU

Similar to the Aircraft CGU, since all intangible asset not yet available for use and goodwill related to the SkyX CGU were tested for impairment as at 31 December 2016 and there was no impairment indicator as at 30 June 2017, the Directors considered no impairment test was to be performed for the SkyX CGU. No impairment loss on SkyX related assets was recognised during the six months ended 30 June 2017.

B. Available-for-sale investments

Reference is made to notes 7 and 14 to the condensed consolidated interim financial statements of the Company and its subsidiaries in the Interim Results Announcement.

As at 30 June 2017, as disclosed in the Interim Results Announcement, the Company had available-for-sale investments (the “**AFS Investments**”) of HK\$1,667,077,000 and fair value gains of derivative financial assets (the “**FV Gains**”) of HK\$616,404,000. In addition to the information disclosed in the Interim Results Announcement, the Company would like to provide the market with additional information in relation to the AFS Investments below:

AFS Investments as at 30 June 2017	<i>(HK\$'000)</i>	Number of shares held and shareholding percentage
Unlisted		
Beyond Verbal	23,269	60,779 preferred A shares (19.9%) and 2,508 preferred A-1 shares (0.81%)
深圳烯旺新材料科技股份有限公司 (*Shenzhen Grahope New Materials Technologies Inc. (“ GNM ”) Investment cost)	5,770	1.61% of the registered share capital
Less: Exchange difference	<u>(20)</u>	
	<u>5,750</u>	
Gilo	91,757	400 ordinary shares (19.14%)
Listed		
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)”))	<u>1,546,301</u>	42,075,736 ordinary shares (3.32%)
	<u><u>1,667,077</u></u>	

Note: Please refer to note 14 to the condensed consolidated interim financial statements of the Company and its subsidiaries in the Interim Results Announcement for further details on Beyond Verbal, Gilo and KCT.

* For identification purpose only

Derivatives right of shares of KCT	<i>HK\$'000</i>
FV recognised on approval from the China Securities Regulatory Commission on 11 November 2016	1,021,151
Decrease in FV recognised in profit or loss account	<u>(229,913)</u>
FV as at 31 December 2016	791,238
Increase in FV recognised in profit or loss account upon completion of subscription of shares in KCT on 13 February 2017	616,404
Exchange difference	12,049
FV as at 13 February 2017	1,419,691
Derecognised upon exercise of subscription right on 13 Feb 2017	<u>(1,419,691)</u>
FV as at 30 June 2017	<u><u>–</u></u>
AFS Investment – KCT	<i>HK\$'000</i>
As at 1 January 2017	–
Addition – Investment cost on subscription of shares on 13 February 2017	345,000
Transferred from derivative financial assets on 13 February 2017	1,419,691
Fair value loss recognised in AFS Investment reserves on 30 June 2017 to reserves	(235,730)
Exchange difference	<u>17,340</u>
As at 30 June 2017	<u><u>1,546,301</u></u>

AFS Investments	Beyond Verbal	Gilo	KCT	GNM
Business Description	Based in Tel-Aviv, Israel, Beyond Verbal is a health and emotions analytics solution provider.	Gilo is a UK based company which is principally engaged in the research and development and manufacturing of aviation and new engines.	KCT is principally engaged in (i) the manufacturing and sale of automotive parts; (ii) the sale of commercial vehicles, general machinery and instrumentation; (iii) the import and export business; and (iv) the metamaterials industry.	GNM is an enterprise that specialises in the application of graphene in field of wearable technology.
Number of Shares Held and Shareholding Proportion	As at 30 June 2017: · 60,779 preferred A shares (19.9%) · 2,508 preferred A-1 shares without voting right	As at 30 June 2017: · 400 ordinary shares (19.14%)	As at 30 June 2017: · 42,075,736 ordinary shares (3.32%)	As at 30 June 2017: · 1.61% of the registered share capital
Investment Cost (HK\$)	23,269,000	91,757,000	345,000,000	5,770,000
Investment Cost to Net Assets of the Company and its subsidiaries	0.791%	3.121%	11.734%	0.2%
Dividends Received during the six months ended 30 June 2017			NIL	

AFS Investments	Beyond Verbal	Gilo	KCT	GNM
Performance during the six months ended 30 June 2017 and Relevant Reasons	No change in FV.	No change in FV.	Please refer to the sections headed “Derivatives right of shares of KCT” and “AFS Investment – KCT” in this announcement for details on the change in FV of the Company’s investment in KCT during the six months ended 30 June 2017.	No change in FV.
Strategy for Future Investments and Prospects	Beyond Verbal’s emotion analysing technology will enhance the Company’s ability to develop artificial intelligence. Such an investment in Beyond Verbal therefore represents integration and development of new technologies and applications.	Through the investment in Gilo, the Company will be able to benefit from Gilo’s high-quality engine products and support in research and development.	The Company notes that KCT is actively developing smart structures and vehicle equipment for road transport and the rail transit sector. Through the investment in KCT, the Company believes that the technology can be integrated with the Company’s products.	The Company and GNM are establishing a strategic partnership to explore the potential application of graphene in other aspects to yield reasonable financial returns.

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

Hong Kong, 28 September 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.