

# 2017

Interim Report

# KUANGCHI SCIENCE LIMITED

(Incorporated in Bermuda With Limited Liability)

(Stock Code: 439)



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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Dr. Liu Ruopeng (*Chairman*)  
Dr. Zhang Yangyang  
(*Co-Chief Executive Officer*)  
Dr. Luan Lin (*Co-Chief Executive Officer &  
Chief Technology Officer*)  
Mr. Dorian Barak

#### Non-executive Directors

Mr. Ko Chun Shun, Johnson  
Mr. Song Dawei

#### Independent Non-executive Directors

Dr. Liu Jun  
Dr. Wong Kai Kit  
Ms. Cao Xinyi

### AUDIT COMMITTEE

Ms. Cao Xinyi (*Chairman*)  
Dr. Liu Jun  
Dr. Wong Kai Kit

### REMUNERATION COMMITTEE

Dr. Wong Kai Kit (*Chairman*)  
Dr. Liu Jun  
Dr. Zhang Yangyang

### NOMINATION COMMITTEE

Dr. Liu Ruopeng (*Chairman*)  
Dr. Liu Jun  
Dr. Wong Kai Kit

### COMPANY SECRETARY

Mr. Law Wing Hee

### AUDITOR

PricewaterhouseCoopers

### REGISTERED OFFICE

Clarendon House  
2 Church Street, Hamilton HM11  
Bermuda

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## **CORPORATE INFORMATION**

### **REGISTRARS**

#### **Hong Kong**

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Level 22, Hopewell Centre  
183 Queen's Road East, Hong Kong

#### **Bermuda**

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Clarendon House, 2 Church Street  
Hamilton HM 11  
Bermuda

### **PRINCIPAL BANKERS**

Bank of Communications Company Limited  
Shanghai Pudong Development Bank Co., Ltd.

### **STOCK CODE**

439

# 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 six months ended 30 June 2017 (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\$349,623,000, increased by 4.4 times as compared to the same period of last year. Basic earnings per share increased to 7.38 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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.



## MANAGEMENT DISCUSSION AND ANALYSIS

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 followed 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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 plan 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.





## MANAGEMENT DISCUSSION AND ANALYSIS

### **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 explore 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.

In August 2017, Shenzhen Kuangchi Connection Technology Investment Limited Partnership (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 is Shenzhen Kuang-Chi Hezhong Technology Limited (“Kuang-Chi Hezhong”), 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the Company and its subsidiaries have entered into the strategic cooperation framework agreement with Shenzhen Bus Group Company Limited in August 2017, 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 Company and its subsidiaries hold 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 Company and its subsidiaries 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 (30 June 2016: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### CAPITAL STRUCTURE

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

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

### 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 2016, 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 2016, approximately HK\$782,743,000 was unutilised.

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

<b>Intended use of proceeds</b>	<b>Unutilised proceeds as at 1 January 2017 HK\$'000</b>	<b>Utilised during the year HK\$'000</b>	<b>Unutilised proceeds as at 30 June 2017 HK\$'000</b>
Acquisition of land site and construction of manufacturing facilities and expansion of production capacity for the Future Technology Business	739,304	(30,849)	708,455
Research and development for products and expenses for the in-depth space business	43,439	(43,439)	–
General working capital	–	–	–
Global merger and acquisition of Future Technology Business and products	–	–	–
	782,743	(74,288)	708,455

## MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, approximately HK\$74,288,000 was utilised according to the intended use as specified in the annual report of year 2014. During the Period, the Company and its subsidiaries paid approximately HK\$30,849,000 to purchase additional plant and equipment for the Future Technology Business and approximately HK\$43,439,000 on research and development costs.

The unused proceeds up to 30 June 2017 were approximately HK\$708,455,000. The management will use the remaining proceeds as intended including for the use for merger and acquisition as discussed above.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, total shareholders' funds of the Company and its subsidiaries amounted to approximately HK\$2,901,243,000 (31 December 2016: HK\$2,729,711,000). Total assets was approximately HK\$3,910,484,000 (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 Company and its subsidiaries had bank balances and cash of approximately HK\$1,154,928,000 (31 December 2016: HK\$870,558,000) and time deposit of approximately HK\$195,378,000 (31 December 2016: HK\$252,005,000) and the Company and its subsidiaries 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 convertible debenture of HK\$6,584,000) to net asset value, was approximately 21.0% (31 December 2016: 9.91%).

The business operations and investments of the Company and its subsidiaries 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, USD13,400,000 and RMB: Nil). Other than described above, most of the assets, liabilities and transactions of the Company and its subsidiaries are primarily denominated in HKD, RMB, NZD and CAD. The Company and its subsidiaries have not entered into any instruments on the foreign exchange exposure. The Company and its subsidiaries will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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.

On 9 September 2016, pursuant to the PSP Agreement, the Company acquired an additional 775,194 preferred shares of SkyX for cash consideration amounting to USD2,000,000 as certain SkyX condition were fulfilled.

As of 30 June 2017, the Company held 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 Company and its subsidiaries did not have any other significant investment and there are no other material acquisition or disposal of subsidiaries and associated company during the Period.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

On 25 March 2015, the Company and its subsidiaries entered into a subscription agreement with KCT, which listed on the Shenzhen Stock exchange, pursuant to which KCT conditionally agreed to issue, and the Company and its subsidiaries 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 Company and its subsidiaries 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 Company and its subsidiaries 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 13 February 2017 and was recognised as available-for-sale financial assets on the same day. As at 13 February 2017, the fair value of the derivatives right of shares of KCT was amounted to approximately HK\$1,419,691,000 and hence the Company and its subsidiaries recognised a fair value gain of HK\$616,404,000 upon the conversion of derivative in the consolidated profit or loss. Subsequent to the completion of subscription on 13 February 2017, the Company and its subsidiaries holds 3.2% of the ordinary shares of KCT issued. The directors of the Company consider the Company has no significant influence over KCT and no right to appoint any director, and hence classified the investment in KCT as AFS investment at HK\$1,419,691,000 which is the fair value of KCT as at 13 February 2017. The fair value loss of HK\$235,730,000 from 13 February 2017 to 30 June 2017 was recognised in other comprehensive loss.

### **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 Company 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 Company 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 Company 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

Based on the valuation report, the recoverable amount of the Jetpack products business is lower than the carrying value. Hence, the Company and its subsidiaries 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 during the Period. Subsequently, as disclosed in the announcement dated 19 September 2017 of the Company, 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.

### CHARGES ON THE ASSETS AND CONTINGENT LIABILITIES OF THE COMPANY AND ITS SUBSIDIARIES

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

	(Unaudited) 30 June 2017 HK\$'000	(Audited) 31 December 2016 HK\$'000
Pledged equity securities	1,546,301	–
	1,546,301	–

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



## MANAGEMENT DISCUSSION AND ANALYSIS

### CAPITAL COMMITMENT

As at 30 June 2017, the Company and its subsidiaries had capital commitments as below:

	(Unaudited) 30 June 2017 HK\$'000	(Audited) 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

### EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Company and its subsidiaries had approximately 792 employees. The Company and its subsidiaries provide competitive remuneration packages to employees with share option scheme and attractive discretionary bonus payable to those with outstanding performance and contribution to the Company and its subsidiaries.

### SHARE OPTION SCHEMES AND RESTRICTED SHARE AWARD SCHEME

#### Share Option Scheme of the Company

The Company maintains a share option scheme of the Company (“Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Company and its subsidiaries. Detailed terms of the Share Option Scheme were disclosed in the 2016 Annual Report.

## MANAGEMENT DISCUSSION AND ANALYSIS

Movement of options granted under the Share Option Scheme is as follows:

Category of participant	Date of Grant	Exercise price HK\$	Exercisable period <sup>(2)</sup>	Outstanding as at 1 January 2017	Granted during the period	Exercised during period	Outstanding as at 30 June 2017
<b>Directors</b>							
Dr. Zhang Yangyang	26.8.2014	1.604	30.9.2015 – 31.12.2017 <sup>(3)</sup>	15,000,000	–	(4,950,000)	10,050,000
Dr. Luan Lin	26.8.2014	1.604	30.9.2015 – 31.12.2017 <sup>(3)</sup>	9,900,000	–	(3,267,000)	6,633,000
Dr. Zhang Yangyang	30.9.2015	1.604	30.9.2015 – 29.9.2019 <sup>(3)</sup>	8,000,000	–	–	8,000,000
Dr. Luan Lin	30.9.2015	1.604	30.9.2015 – 29.9.2019 <sup>(3)</sup>	7,900,000	–	–	7,900,000
Sub-total				40,800,000	–	(8,217,000)	32,583,000
<b>Employees</b>							
Ms. Huang Weizi <sup>(1)</sup>	26.8.2014	1.604	30.9.2015 – 31.12.2017 <sup>(3)</sup>	3,000,000	–	(990,000)	2,010,000
Other employees	26.8.2014	1.604	30.9.2015 – 31.12.2017 <sup>(3)</sup>	39,637,000	–	(11,339,377)	28,297,623
Other employees	30.9.2015	1.604	30.9.2015 – 29.9.2019 <sup>(3)</sup>	54,100,000	–	–	54,100,000
Sub-total				96,737,000	–	(12,329,377)	84,407,623
Total				137,537,000	–	(20,546,377)	116,990,623

- (1) Ms. Huang Weizi is the spouse of Dr. Liu Ruopeng, an executive Director of the Company.
- (2) Vesting of the share options is conditional upon the achievement of certain performance targets as set out in the respective offer letters.
- (3) Commencing from the first, second and third anniversaries of the date of grant of the options, the relevant grantee may exercise up to 33%, 33% and 34% respectively of the options granted.
- (4) The weighted average closing price of shares immediately before the date on which options were exercised was HK\$2.28.
- (5) No option was cancelled and lapsed during the Period.



## MANAGEMENT DISCUSSION AND ANALYSIS

### **Restricted Share Award Scheme**

The Company maintains a restricted share award scheme (the “RSA Scheme”) to recognize and motivate the contribution of the participants and to provide them with a direct economic interest in attaining the long-term business objectives of the Company. Detailed terms of the RSA scheme were disclosed in the 2016 Annual Report.

During the Period, no restricted shares were granted by the Company. During the Period, no restricted shares were purchased nor issued by the Company for the purposes of the RSA Scheme.

### **Share Option Schemes in MACL**

On 23 February 2015, the Company and its subsidiaries have completed the acquisition of MACL. As at 23 February 2015, MACL has granted in aggregate 9,206,670 outstanding share options under the company option scheme of MACL and the new company option scheme of MACL as approved by the board of directors of MACL in 2008 and 2014 respectively (the “MACL Option Schemes”).

The purpose of the MACL Option Schemes is to enable key contributors to the potential success of MACL to share in that success by issuing them an option to purchase ordinary shares in MACL at an agreed price. Detailed terms of the MACL Option Schemes were disclosed in the 2016 Annual Report.

## MANAGEMENT DISCUSSION AND ANALYSIS

	Original date of grant	Exercise price NZD	Exercisable period	Number of options				Outstanding as at 30 June 2017
				Outstanding as at 1 January 2017	Granted during the year	Cancelled during the year	Exercised during the year	
<b>MACL Option Schemes</b>								
Directors and employees of MACL	11 July 2012	0.24	July 2015 – July 2016	150,000	–	–	–	150,000
	1 April 2013	0.24	April 2014 – April 2018	1,000,000	–	–	–	1,000,000
	1 April 2013	0.24	April 2015 – April 2018	1,000,000	–	–	–	1,000,000
	1 April 2013	0.24	April 2016 – April 2018	1,000,000	–	–	–	1,000,000
	1 November 2014	0.43	September 2014 – September 2019	480,000	–	(240,000)	–	240,000
	1 November 2014	0.43	September 2015 – September 2019	746,667	–	(240,000)	–	506,667
	1 November 2014	0.43	September 2016 – September 2019	746,666	–	(240,000)	–	506,666
	1 November 2014	0.43	September 2017 – September 2019	266,667	–	–	–	266,667
	1 November 2014	0.43	May 2016 – May 2020	266,667	–	–	–	266,667
	1 November 2014	0.43	May 2017 – May 2020	266,667	–	–	–	266,667
	1 November 2014	0.43	May 2018 – May 2020	266,666	–	–	–	266,666
				6,190,000	–	(720,000)	–	5,470,000
Exercisable				6,190,000				5,470,000
Weighted average exercise price (NZD)				0.3333				0.3206

Note: No option was lapsed during the Period.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2017, the following directors or chief executives of the Company or his associates had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

Name of Director/ Chief executive	Number of Shares held	Number of underlying Shares held			Total	Approximately percentage of total issued Shares
	Corporate interests	Personal interest	Family interests	Corporate interests		
Dr. Liu Ruopeng ("Dr. Liu")	3,078,000,000 (L) (note 2)	-	2,010,000 (L) (note 3)	-	3,080,010,000 (L)	50.41%
	2,078,000,000 (S) (note 4)	-	-	-	2,078,000,000 (S)	34.01%
Mr. Ko Chun Shun Johnson ("Mr. Ko")	56,000,000 (L) (note 5)	-	-	-	56,000,000 (L)	0.92%
Dr. Zhang Yangyang ("Dr. Zhang")	-	18,050,000 (L) (note 6)	-	-	18,050,000 (L)	0.30%
Dr. Luan Lin ("Dr. Luan")	-	14,533,000 (L) (note 7)	-	-	14,533,000 (L)	0.24%
Dr. Liu Jun	-	80,000 (L)	-	-	80,000 (L)	0.001%
Mr. Dorian Barak ("Mr. Barak")	-	1,000,000 (L) (note 8)	-	-	1,000,000 (L)	0.16%

Notes:

1. "L" represents long position in Shares/underlying Shares and "S" represents short position in Shares.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

2. This represents the interests in 3,078,000,000 shares of the Company held by New Horizon Wireless Technology Limited ("New Horizon"), being a wholly-owned subsidiary of Wireless Connection Innovative Technology Limited which is owned as to 51% by Kuang-Chi Innovative Technology Limited and as to 49% by Shenzhen Kuang-Chi Hezhong Technology Limited. Kuang-Chi Innovative Technology Limited is a subsidiary of Shenzhen Dapeng Kuang-Chi Technology Limited, which is in turn a subsidiary of Shenzhen Dapeng Kuang-Chi Lianzhong Technology Limited Liability Partnership of which Dr. Liu is the controlling shareholder, and Dr. Liu is the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology Limited. Accordingly, Dr. Liu is deemed to be interested in the same number of shares of the Company held by New Horizon.
3. This represents the interests in the share options of the Company held by Ms. Huang Weizi ("Ms. Huang"), the spouse of Dr. Liu.
4. This represents
  - (i) the share charge given by New Horizon in favour of Ping An Bank over 1,544,666,667 Shares owned by New Horizon.
  - (ii) the share charge given by New Horizon in favour of Everbright Fortune over 533,333,333 Shares owned by New Horizon.
5. This represents the interests in 56,000,000 Shares held by Starbliss Holdings Limited ("Starbliss"). Starbliss is ultimately wholly owned by Mr. Ko.
6. This represents interests in the share options of the Company held by Dr. Zhang.
7. This represents interests in the share options of the Company held by Dr. Luan.
8. This represents interests in the share options of the Company held by Mr. Barak. Mr. Barak was interested in an aggregate of (i) 75,706 warrants of SkyX Limited, a subsidiary of the Company, which entitling the holder to subscribe for 75,706 shares (equivalent to approximately 2.57% of the fully diluted shareholding); (ii) 3,030 warrants of Beyond Verbal Communications Ltd., the Company's associated corporation, which entitling the holder to subscribe for 3,030 shares (equivalent to approximately 0.84% of the fully diluted shareholding).
9. As of 30 June 2017, the issued shares of the company was 6,109,947,502.

Save as disclosed above, as at 30 June 2017, no interests or short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2017, the following shareholders had interests, directly or indirectly, or short positions in the shares and underlying shares of the Company would fall to be disclosed to the Company and the Stock Exchange under provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximately percentage of total issued Shares
Ms. Huang	Beneficial owner and interest of spouse	3,078,000,000 (L) (note 2)	2,010,000 (note 3)	3,080,010,000 (L)	50.41%
		2,078,000,000 (S) (note 4)	-	2,078,000,000 (S)	34.01%
New Horizon	Beneficial owner	3,078,000,000 (L)	-	3,078,000,000 (L)	50.38%
		2,078,000,000 (S)	-	2,078,000,000 (S)	34.01%
Wireless Connection Innovative Technology Limited	Interest of controlled corporation	3,078,000,000 (L)	-	3,078,000,000 (L)	50.38%
		2,078,000,000 (S)	-	2,078,000,000 (S)	34.01%
深圳大鵬光啟科技有限公司 (*Shenzhen Dapeng Kuang-Chi Technology Limited)	Interest of controlled corporation	3,078,000,000 (L)	-	3,078,000,000 (L)	50.38%
		2,078,000,000 (S)	-	2,078,000,000 (S)	34.01%
深圳大鵬光啟聯眾科技合夥企業 (有限合伙) (*Shenzhen Dapeng Kuang-Chi Lianzhong Technology Limited (Liability Partnership))	Interest of controlled corporation	3,078,000,000 (L)	-	3,078,000,000 (L)	50.38%
		2,078,000,000 (S)	-	2,078,000,000 (S)	34.01%
深圳光啟合眾科技有限公司 (*Shenzhen Kuang-Chi Hezhong Technology Limited)	Interest of controlled corporation	3,078,000,000 (L)	-	3,078,000,000 (L)	50.38%
		2,078,000,000 (S)	-	2,078,000,000 (S)	34.01%

\* For identification purpose only

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximately percentage of total issued Shares
深圳光啟創新技術有限公司 (*Shenzhen Kuang-Chi Innovative Technology Limited)	Interest of controlled corporation	3,078,000,000 (L) 2,078,000,000 (S)	–	3,078,000,000 (L) 2,078,000,000 (S)	50.38% 34.01%
平安銀行股份有限公司 (*Ping An Bank) (note 5)	Person having a security interest in Shares	1,544,666,667 (L)	–	1,544,666,667 (L)	25.28%
中國平安保險(集團)股份有限公司 (Ping An Insurance (Group) Company of China Ltd.)	Interest of controlled corporation	1,544,666,667 (L)	–	1,544,666,667 (L)	25.28%
World Treasure Global Limited (note 6)	Beneficial owner	1,042,981,013 (L)	–	1,042,981,013 (L)	17.07%
Central Faith International Ltd.	Interest of controlled corporation	1,042,981,013 (L)	–	1,042,981,013 (L)	17.07%
上海光大富尊環璣投資中心(有限合伙) (*Shanghai Everbright Fortune Jinghui Investment Center) (note 7)	Person having a security interest in Shares	736,573,185 (L)	–	736,573,185 (L)	12.06%
光大富尊泰鋒投資管理(上海)有限公司 (*Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd) (note 8)	Interest of controlled corporation	736,573,185 (L)	–	736,573,185 (L)	12.06%
光大富尊投資有限公司 (*Everbright Fortune Investment Co., Ltd) (note 9)	Interest of controlled corporation	736,573,185 (L)	–	736,573,185 (L)	12.06%
光大証券股份有限公司 (*Everbright Securities Company Limited)	Interest of controlled corporation	736,573,185 (L)	–	736,573,185 (L)	12.06%

\* For identification purpose only



## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

Notes:

1. “L” represents long position in Shares/underlying Shares and “S” represents short position in Shares.
2. This represents the interest in the shares of the Company held by New Horizon. Ms. Huang, being the spouse of Dr. Liu, is deemed to be interested in the same number of Shares held by New Horizon.
3. This represents the interests in 2,010,000 share options held by Ms. Huang.
4. This represents
  - (i) the share charge given by New Horizon in favour of Ping An Bank over 1,544,666,667 Shares owned by New Horizon.
  - (ii) the share charge given by New Horizon in favour of Everbright Fortune over 533,333,333 Shares owned by New Horizon.
5. 50.2% of equity interest of Ping An Bank is held by Ping An Insurance (Group) Company of China Ltd.
6. World Treasure Global Limited is a wholly owned subsidiary of Central Faith International Ltd.
7. 50% of equity interest of 上海光大富尊環璽投資中心 (Limited Liability Partnership) is held by Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd.
8. 85% of equity interest of Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd is held by Everbright Fortune Investment Co., Ltd.
9. 100% of equity interest of Everbright Fortune Investment Co., Ltd. is held by Everbright Securities Company Limited.
10. As at 30 June 2017, the issued share capital of the Company is 6,109,947,502.

Save as disclosed above, as at 30 June 2017, the Company was not aware of any other person (other than the director or chief executive of the Company) who had an interest, directly or indirectly, or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## **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 provision A.6.7. Code provision A.6.7 stipulates that independent non-executive director, 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 owing 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.

### **CHANGE OF DIRECTORS' INFORMATION**

The change of directors' information during the Period is set out below:

1. Dr. Wong Kai Kit was no longer on the editorial board of IEEE Communications Letters, Journal of Communications and Networks, and IET Communications. He promoted to the senior editor on the editorial board of IEEE Wireless Communications Letters.
2. Mr. Ko Chun Shun, Johnson ("Mr. Ko") has been re-designated from an executive director to a non-executive director and ceased to be the authorised representative of the Company with effect from 16 May 2017.
3. Dr. Luan Lin was appointed to be the authorised representative of the Company with effect from 16 May 2017.

Save as disclosed above, as at 30 June 2017, there is no other change of directors' information which is discloseable in the 2016 Annual Report in accordance with Rule 13.51B(1) of the Listing Rules.

### **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.



## CORPORATE GOVERNANCE AND OTHER INFORMATION

### 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.

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

### 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 Company and its subsidiaries, the risk management and internal control systems, and the financial reporting matters.

On behalf of the Board  
**KuangChi Science Limited**  
**Dr. Liu Ruopeng**  
*Chairman and Executive Director*

Hong Kong, 31 August 2017

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

	Notes	Six months ended 30 June	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Revenue	6	190,735	311,992
Cost of sales		(77,956)	(115,715)
Gross profit		112,779	196,277
Other income	7	68,631	2,426
Other gains, net	8	609,349	4,921
Provision for impairment of goodwill	9	(32,364)	–
Share of losses of associates		(2,101)	(1,010)
Selling and distribution expenses		(24,402)	(22,645)
Research and development expenses		(223,827)	(49,766)
Administrative expenses		(62,212)	(55,787)
Finance income		6,932	7,343
Finance costs		(11,587)	(791)
Profit before tax		441,198	80,968
Income tax expense	12	(91,575)	(16,176)
Profit for the period		349,623	64,792
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translating foreign operations		48,620	6,158
Fair value loss of an available-for-sale investment		(235,730)	–
<b>Total comprehensive income for the period</b>		<b>162,513</b>	<b>70,950</b>
Profit for the period attributable to:			
Owners of the Company		445,643	105,529
Non-controlling interests		(96,020)	(40,737)
		349,623	64,792
Total comprehensive income attributable to:			
Owners of the Company		258,505	111,577
Non-controlling interest		(95,992)	(40,627)
		162,513	70,950
Earnings per share	14		
Basic (HK cents per share)		7.38	1.85
Diluted (HK cents per share)		7.37	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)
<b>ASSETS AND LIABILITIES</b>			
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	15	161,222	149,435
Goodwill		9,199	41,563
Intangible assets	16	7,571	214,527
Investment property	17	–	13,800
Investment in associates		59,767	33,166
Derivative financial assets	18	7,674	798,912
Available-for-sale investments	19	1,667,077	29,040
Prepaid lease payments		87,283	83,581
Deposits paid for acquisition of plant and equipment	21	20,700	25,634
Prepayment for advertising	21	2,712	5,389
Loan receivables	20	–	21,711
<b>Total non-current assets</b>		<b>2,023,205</b>	<b>1,416,758</b>
<b>CURRENT ASSETS</b>			
Prepaid lease payments		–	2,204
Inventories		83,763	149,310
Trade and other receivables	21	429,100	522,938
Loan receivables	20	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
<b>Total current assets</b>		<b>1,887,279</b>	<b>2,087,350</b>
<b>TOTAL ASSETS</b>		<b>3,910,484</b>	<b>3,504,108</b>
<b>CURRENT LIABILITIES</b>			
Trade, other payables and deferred revenue	24	181,776	361,520
Income tax payable		1,564	23,427
Bank borrowings	25	264,828	264,147
Convertible debenture		–	6,584
<b>Total current liabilities</b>		<b>448,168</b>	<b>655,678</b>

**CONDENSED CONSOLIDATED STATEMENT  
OF FINANCIAL POSITION**  
AT 30 JUNE 2017

	Notes	<b>30 June 2017</b> HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
<b>NON-CURRENT LIABILITIES</b>			
Other borrowing	25	<b>345,000</b>	–
Deferred tax liabilities		<b>216,073</b>	118,719
<b>Total non-current liabilities</b>		<b>561,073</b>	118,719
<b>TOTAL LIABILITIES</b>		<b>1,009,241</b>	774,397
<b>CAPITAL AND RESERVES</b>			
Share capital	22	<b>61,099</b>	60,894
Reserves	23	<b>2,729,778</b>	2,400,041
Equity attributable to owners of the Company		<b>2,790,877</b>	2,460,935
Non-controlling interests		<b>110,366</b>	268,776
<b>TOTAL EQUITY</b>		<b>2,901,243</b>	2,729,711
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,910,484</b>	3,504,108

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Attributable to shareholders of the Company							Attributable to non-controlling interests								
	Share capital - Ordinary shares	Share capital - Preferred shares	Share premium	Share preferred share	Capital reserve	Contributed surplus	Share-based payment reserve	Exchange translation reserve	Available for-sale investment	(Accumulated losses)/ retained earnings	Subtotal	Convertible debt	Share of net assets of subsidiaries	Subtotal	Total	
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
					(note a)	(note b)	(note c)				(note d)	(note e)				
Balance at 1 January 2016	57,137	3,757	2,069,865	26,281	(6,301)	103,941	77,930	(61,165)	-	(349,314)	1,922,131	15,671	3,823	233,373	252,867	2,174,998
Profit for the period	-	-	-	-	-	-	-	-	-	105,529	105,529	-	-	(40,737)	(40,737)	64,792
Other comprehensive income for the period	-	-	-	-	-	-	-	6,048	-	-	6,048	-	-	110	110	6,158
Total comprehensive income for the period	-	-	-	-	-	-	-	6,048	-	105,529	111,577	-	-	(40,627)	(40,627)	70,950
Derivative financial assets derecognised upon exercise of the underlying options (note 13)	-	-	-	-	-	-	-	-	-	(61,016)	(61,016)	-	-	-	-	(61,016)
Change in shareholding in existing subsidiary	-	-	-	-	-	-	-	-	-	(82,392)	(82,392)	-	-	82,392	82,392	-
Recognition of share-based payment	-	-	-	-	-	-	20,234	-	-	-	20,234	1,119	-	-	1,119	30,353
Balance at 30 June 2016 (mandated)	57,137	3,757	2,069,865	26,281	(6,301)	103,941	107,164	(55,117)	-	(387,193)	1,919,534	16,790	3,823	275,138	295,751	2,215,285
Balance at 1 January 2017	60,894	-	2,096,146	-	(6,301)	103,941	141,056	(106,394)	-	171,593	2,460,935	14,573	3,823	250,380	268,776	2,728,711
Profit for the period	-	-	-	-	-	-	-	-	-	445,643	445,643	-	-	(96,020)	(96,020)	349,623
Other comprehensive loss for the period	-	-	-	-	-	-	-	49,342	(235,730)	(750)	(187,138)	-	-	28	28	(187,110)
Total comprehensive income for the period	-	-	-	-	-	-	-	49,342	(235,730)	444,893	258,505	-	-	(95,992)	(95,992)	162,513
Exercise of share option	205	-	43,723	-	-	-	(10,972)	-	-	-	32,956	-	-	-	-	32,956
Change in shareholding in existing subsidiary	-	-	-	-	(217)	-	-	-	-	-	(217)	(100)	-	317	217	-
Recognition of share-based payment	-	-	-	-	-	-	14,497	-	-	-	14,497	2,314	-	-	2,314	16,811
Deemed disposal of a subsidiary	-	-	-	-	24,201	-	-	-	-	-	24,201	(8,290)	(3,823)	(52,836)	(64,949)	(40,748)
Balance at 30 June 2017 (mandated)	61,099	-	2,139,869	-	17,683	103,941	144,581	(57,652)	(235,730)	616,486	2,790,877	8,497	-	101,869	110,366	2,901,243

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

Notes:

- (a) The balance of capital reserve represents the capital reserve arising from the Company and its subsidiaries restructuring which took place in 1992 and an option right arising from the acquisition of a subsidiary in 2015.
- (b) The balance of contributed surplus arose as result of the Company's capital reduction exercises which took place in the financial years of 2003 and 2006.
- (c) The balance of share-based payment reserve represents share options granted on 26 August 2014 and 30 September 2015.
- (d) The balance of share-based payment reserves of subsidiaries represent share options granted by subsidiaries, the amount was subsequently adjusted by the deemed disposal of a subsidiary.
- (e) The balance of convertible debenture equity reserve of a subsidiary represents the equity element of convertible debenture issued by a subsidiary and subsequently adjusted by the deemed disposal of a subsidiary.



# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	32,406	(36,153)
INVESTING ACTIVITIES		
Purchase of plant and equipment	(30,849)	(13,604)
Purchase of intangible assets	(34,635)	(9,060)
Proceeds from disposal of plant and equipment	–	387
Interest received	5,788	7,343
Loans advanced to potential investees	–	(19,740)
Withdrawal of time deposits	–	143,277
Withdrawal of time deposits	252,005	140,674
Placement of time deposits	(195,378)	(109,510)
Receipt of loan receivable	273,844	–
Withdrawal of structure bank deposit	13,397	–
Net cash inflow from disposal of a subsidiary	9,101	–
Investment in available-for-sale investment	(434,373)	–
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(141,100)	139,767
FINANCING ACTIVITIES		
Proceeds from bank borrowings	345,000	–
Proceeds from issue of shares under share option scheme	32,956	–
Repayment of principal for obligations under finance lease	–	(233)
Repayment of bank borrowings	–	(142,397)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	377,956	(142,630)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	269,262	(39,016)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	870,558	1,228,556
Effect of foreign exchange rate changes	15,108	(1,644)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	1,154,928	1,187,896

# 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 “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 Company and its subsidiaries mainly operate 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 Company and its subsidiaries have applied, for the first time, the following new amendments to HKASs that are mandatorily effective for the current interim period:

HKAS 7 (Amendment)	Statement of cash flows
HKAS 12 (Amendment)	Income taxes
HKFRS 12 (Amendment)	Disclosure of interest in other entities

The adoption of these amendments to standards did not result in a significant impact to the financial position and results of the Company and its subsidiaries.

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 <sup>(1)</sup>
HKFRS 1 (Amendment)	First time adoption of HKFRS <sup>(1)</sup>
HKFRS 2 (Amendment)	Share-based payment <sup>(1)</sup>
HKFRS 4 (Amendment)	Insurance contracts “Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contract” <sup>(1)</sup>
HKFRS 9	Financial Instruments <sup>(1)</sup>
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an Investor and its Associate and joint venture <sup>(3)</sup>
HKFRS 15	Revenue from contracts with customers <sup>(1)</sup>
HKFRS 16	Leases <sup>(2)</sup>
HK (IFRIC) 22	Foreign currency transactions and advance consideration

<sup>(1)</sup> Effective for the Company and its subsidiaries for annual period beginning on 1 January 2018.

<sup>(2)</sup> Effective for the Company and its subsidiaries for annual period beginning on 1 January 2019.

<sup>(3)</sup> 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 operations of the Company and its subsidiaries, 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 Company and its subsidiaries.

## **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 accounting policies of the Company and its subsidiaries 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 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

### **5.1 Financial risk factors**

The activities of the Company and its subsidiaries expose them to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements of the Company and its subsidiaries as at 31 December 2016.

There have been no changes in the risk management policies since year end.

### **5.2 Liquidity risk**

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

## 5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

### 5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the financial assets and liabilities of the Company and its subsidiaries that are measured at fair value at 30 June 2017.

	Level 1 HKD'000	Level 2 HKD'000	Level 3 HKD'000	Total HKD'000
<b>Assets</b>				
Derivative assets	–	–	7,674	7,674

The following table presents the financial assets and liabilities of the Company and its subsidiaries that are measured at fair value at 31 December 2016.

	Level 1 HKD'000	Level 2 HKD'000	Level 3 HKD'000	Total HKD'000
<b>Assets</b>				
Derivative assets	–	791,238	7,674	798,912

## 5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

### 5.3 Fair value estimation (Continued)

There were no transfers between Level 2 and 3 and no other changes in valuation techniques during the period.

Financial instruments	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	
	30 June 2017	31 December 2016			30 June 2017	31 December 2016
	HK\$'000	HK\$'000				
(1) Swap Right	7,674	7,674	Level 3	Margrabe's Formula is adopted and the key inputs are swap assets price, correlation coefficient and the volatilities of the swap assets in which the perpetual growth rate and discount rate are key inputs for the swap assets price	Volatility: 37.94% Perpetual growth rate: 2% Discount rate of Martin Aircraft Company Limited ("MACL"): 22.18% Discount rate of HKCo: 23% Correlation co-efficient: 0.9	Volatility: 37.94% Perpetual growth rate: 2% Discount rate of Martin Aircraft Company Limited ("MACL"): 22.18% Discount rate of HKCo: 23% Correlation co-efficient: 0.9
(2) Subscription right of Shares of Kuang-Chi Technologies Co., Ltd. ("KCT", formerly known as "Longsheng")	-	791,238	Level 2	Black-Scholes Formula is adopted and the key inputs are the share price of KCT, the volatilities of the assets and the risk free rate	N/A	Volatility: 65% Share price of KCT: 37.46

## 5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

### 5.3 Fair value estimation (Continued)

*Financial instruments in level 3*

	Subscription right of Convertible Securities		Swap Right	
	Six months ended 30 June		Six months ended 30 June	
	2017 HKD'000	2016 HKD'000	2017 HKD'000	2016 HKD'000
Opening balance at 1 January	–	31,184	7,674	20,116
Change in fair value	–	7,436	–	10,310
Derecognised upon exercise of underlying options	–	(38,620)	–	(22,396)
Exchange difference	–	–	–	–
Closing balance at 30 June	–	–	7,674	8,030

The finance department of the Company and its subsidiaries includes a team that performs the valuation of financial asset required for financial reporting purposes, including Level 3 fair values. This team reports directly to the Chief Financial Officer (CFO) and the Audit Committee (AC). Discussion of valuation processes and results are held between the CFO, AC and the valuation team at least once every quarter, in line with the quarterly reporting date of the Company and its subsidiaries.

For derivative assets measured at fair value through the profit or loss, fair value gains of HK\$616,404,000 (six months ended 30 June 2016: gains of HK\$17,746,000) was included in 'Other gains, net' (2016: same) in the profit or loss for the six months ended 30 June 2017.

## 6 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 Company and its subsidiaries on a consolidated basis. Therefore, the operation of the Company and its subsidiaries constitutes one single reportable segment and no further analysis of segments is presented.

### Geographical information

The Company and its subsidiaries operate in four principal geographical areas – the People’s Republic of China (excluding Hong Kong) (“PRC”), Hong Kong, New Zealand and Canada.

Information about the revenue from operations of the Company and its subsidiaries from external customers is presented based on the location of the goods delivered. Information about the non-current assets of the Company and its subsidiaries 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 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (audited)
PRC	190,705	311,812	248,096	215,652
Hong Kong	30	180	1,869	16,329
New Zealand	–	–	14,269	187,947
Canada	–	–	21,741	108,612
	190,735	311,992	285,975	528,540

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



## 7 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
	<b>68,631</b>	2,426

Note a:

During the period ended 30 June 2017, the Company and its subsidiaries recognised a conditional government grant amounting to RMB60,000,000 as the Company and its subsidiaries 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 Company and its subsidiaries are required to refund RMB60,000,000 to the city government if the Company and its subsidiaries 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 Company and its subsidiaries recognised the full amount received as other income.

## 8 OTHER GAINS, NET

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Loss on deemed disposal of a subsidiary (Note 10)	(18,091)	–
Loss on disposal of plant and equipment	(150)	(795)
Fair value gains of derivative financial assets (Note 19(iv))	616,404	17,746
Exchange gain/(loss), net	11,100	(11,840)
Others	86	(190)
	<b>609,349</b>	4,921

## 9 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, 2) solar powered aircrafts business (“Aircrafts CGU”), and 3) SkyX unmanned aircraft business (“SkyX CGU”).

The carrying amounts of goodwill (net of accumulated impairment losses) and capitalised development as at the period ended dates allocated to these 3 CGUs are as follows:

	Goodwill		Capitalised development	
	30 June 2017 HK\$'000	31 December 2016 HK\$'000	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Jetpack products business	–	32,364	–	80,593
Solar powered aircrafts business	–	–	–	27,255
SkyX unmanned aircrafts business	<b>9,199</b>	9,199	–	–
	<b>9,199</b>	41,563	–	107,848

### Impairment loss in relation to the Jetpack Products Business

The Company currently holds approximately 52% shareholding 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. During the Period, the Company and its subsidiaries has 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.

## 9 IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS NOT READY FOR USE (Continued)

### Impairment loss in relation to the Jetpack Products Business (Continued)

The Company and its subsidiaries engaged a qualified professional valuer (the “**Independent Valuer**”), who is not connected with the Company and its subsidiaries, to determine the recoverable amount of HK\$88,475,000 related to the Jetpack products business. 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 announcement of the Company dated 31 August 2017 (“**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 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 “**Valuation Results**”). The Company and its subsidiaries was 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 (“**HKAS 36**”) 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.

## 9 IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS NOT READY FOR USE (Continued)

### **Impairment loss in relation to the Jetpack Products Business (Continued)**

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

## 9 IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS NOT READY FOR USE (Continued)

### **Impairment loss in relation to the Jetpack Products Business (Continued)**

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 mentioned above, 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 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 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, 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.

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.

As at 30 June 2017, the impairment loss is recorded to be HK\$181,955,000, consisting of (i) impairment loss of HK\$32,364,000 on goodwill and (ii) impairment loss of HK\$149,591,000 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 condensed consolidated statement of profit or loss and other comprehensive income. 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.

## **9 IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS NOT READY FOR USE** (Continued)

### **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.

## **10 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 a subsidiary and become an associate of the Company and its subsidiaries 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.

## 11 EXPENSES BY NATURE

Expenses including cost of sales, selling and distribution expenses, research and development expenses and administrative expenses are analysed as follow:

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HKD'000	HKD'000
Cost of sales	77,956	115,715
Director emoluments	2,916	2,777
Depreciation	5,486	4,052
Travelling expenses	8,453	5,331
Advertising expenses	4,318	9,708
Rental expenses	6,514	3,960
Share option	14,288	12,813
Staff cost and benefit expenses	54,208	31,139

## 12 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

Notes:

- (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 Company and its subsidiaries operate.

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%).

### 13 DIVIDEND

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

### 14 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	445,643	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	445,643	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



## 14 EARNINGS PER SHARE (Continued)

	Unaudited	
	Six months ended 30 June	
	2017	2016
Basic earnings per share (HK cents per share)	7.38	1.85
Diluted earnings per share (HK cents per share)	7.37	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 Company and its subsidiaries since their assumed conversion or exercise would result in an increase in the earnings per share.

## 15 PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Company and its subsidiaries acquired property, plant and equipment of approximately HK\$35,783,000 (six months ended 30 June 2016: HK\$24,038,000).

During the six months ended 30 June 2017, the Company and its subsidiaries disposed of certain machineries with an aggregate carrying amount of approximately HK\$24,559,000 through the disposal of a subsidiary (note 10). (six months ended 30 June 2016: Nil).

## 16 INTANGIBLE ASSET

During the six months ended 30 June 2017, the Company and its subsidiaries capitalised development costs in intangible assets of approximately HK\$17,025,000 (six months ended 30 June 2016: HK\$9,060,000). Impairment loss recognised on the technical know how and capitalised development costs during the six months ended 30 June 2017 amounts to approximately HK\$52,427,000 and HK\$97,164,000 respectively (six months ended 30 June 2016: Nil).

## 17 INVESTMENT PROPERTY

The fair value measurement information for the investment property in accordance with HKFRS 13 are given below.

	Fair value measurements at 30 June 2016		
	Quoted prices in active markets for identical assets (Level 1) HK\$'000	Significant other observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000
Residential premise located in Hong Kong			
Investment property	–	–	13,700

There were no transfers into or out of Level 3 during the period.

## 17 INVESTMENT PROPERTY (Continued)

Investment property which has fair value measurement using significant unobservable inputs (Level 3).

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Opening balance	13,800	13,700
Unrealised gains recognised in profit or loss	–	–
Disposal of a subsidiary	(13,800)	–
Closing balance	–	13,700

The fair value of investment property was determined based on the direct comparison method, where the value is assessed by reference to the comparable properties of similar size, character and location, factoring in all the respective advantages and disadvantages of each property. There has been no change from the valuation technique used in the comparative period.

The key input used in valuing the investment property is price per square foot. A slight increase in the price per square foot will increase significantly the fair value of the investment property and vice versa.

The valuation as at 30 June 2016 was not carried out by independent qualified valuer. The fair value of the investment property of the Company as at 30 June 2016 is based on the directors' estimation with reference to the available market information.

Due to the Company sold a subsidiary holding investment properties to a third party on January 2017, the subsequent balance of investment properties was nil.

## 18 DERIVATIVE FINANCIAL ASSETS

	Derivative – share swap HK\$'000	Derivative – subscription right of convertible securities HK\$'000	Derivatives right of shares of KCT (Note 19(iv)) HK\$'000	Total 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

## 19 AVAILABLE-FOR-SALE INVESTMENTS

	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
<b>Unlisted</b>		
Beyond Verbal	23,269	23,269
深圳烯旺新材料科技股份有限公司 Shenzhen Grahope New Materials Technologies Inc. ("GNM")	5,750	5,771
Gilo Industries Group Limited ("Gilo")	91,757	–
	<b>120,776</b>	29,040
<b>Listed</b>		
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)") (note a)	1,546,301	–
	<b>1,667,077</b>	29,040
Note a		
<b>AFS Investment – KCT</b>		<b>HK\$'000</b>
As at 1 January 2017		–
Addition – Investment cost on subscription of shares on 13 February 2017		345,000
Transfer from derivatives on 13 February 2017		1,419,691
Fair value loss recognised in AFS Investment reserves on 30 June 2017		(235,730)
Exchange difference		17,340
As at 30 June 2017		1,546,301

## 19 AVAILABLE-FOR-SALE INVESTMENTS (Continued)

### (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 (equivalent to approximately HK\$23,269,000) (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. Based in Tel-Aviv, Israel, Beyond Verbal is a health and emotions analytics solution provider. 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.

As at 31 December 2016 and 30 June 2017, 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 31 December 2016 and 30 June 2017 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) GNM is an enterprise that specialises in the application of graphene in field of wearable technology. The Company and GNM are establishing a strategic partnership to explore the potential application of graphene in other aspects to yield reasonable financial returns. The Company invested RMB5,000,000 (equivalent to approximately HK\$5,771,000) in GNM during the year ended 31 December 2016 and currently hold 1.61% of the registered share capital of GNM.

## 19 AVAILABLE-FOR-SALE INVESTMENTS (Continued)

### (iii) 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. Gilo is a UK based company which is principally engaged in the research and development and manufacturing of aviation and new engines. 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 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. 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 Company and its subsidiaries held approximately 19.14% of the issued share capital of Gilo. The Company and its subsidiaries estimate the fair value based on the latest market price of the financial assets based on arm’s length basis.

## 19 AVAILABLE-FOR-SALE INVESTMENTS (Continued)

### (iv) Kuang-Chi Technologies Co., Ltd.

On 25 March 2015, the Company and its subsidiaries 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 Company and its subsidiaries 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 Company and its subsidiaries 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 (Note 18). During the year ended 31 December 2016, the Company and its subsidiaries 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 in the consolidated profit or loss.

The subscription has been completed on 13 February 2017. As at 13 February 2017, the fair value of the derivatives asset was amounted to approximately HK\$1,419,691,000 and hence the Company and its subsidiaries recognised a fair value gain of HK\$616,404,000 upon the conversion of derivative in the consolidated profit or loss.

Subsequent to the completion of subscription on 13 February 2017, the Company and its subsidiaries hold 3.2% of the ordinary shares of KCT issued. The directors of the Company consider the Company has no significant influence over KCT and no right to appoint any director, and hence classified the investment in KCT as AFS investment at HK\$1,419,691,000 which is the fair value of KCT as at 13 February 2017. The fair value loss of HK\$235,730,000 from 13 February 2017 to 30 June 2017 was recognised in other comprehensive loss and debit to the available for sale investment reserves.

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. 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.



## 20 LOAN RECEIVABLES

	<b>Unaudited 30 June 2017 HK\$'000</b>	Audited 31 December 2016 HK\$'000
Long term portion	–	21,711
Short term portion	<b>21,856</b>	273,989
	<b>21,856</b>	295,700

Note: As at 30 June 2017, the amount consist of an advance amounted approximately to HK\$21,856,000 to a potential investee. It was pledged with the patents of the borrower, interest bearing at 8% per annum and repayable within 24 months from the first draw date. According to the terms of the loan agreement, the Company and its subsidiaries have 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. The directors of the Company considered that the fair value of this derivative was immaterial as the probabilities of fulfilling the milestones are remote. The balance had been reclassified as current portion as at 30 June 2017.

Both Dr. Liu R (the controlling shareholder and executive director of the Company and its subsidiaries) and Huang Weizi (spouse of Dr. Liu R) are directors of the investee. In additions, Photon Future Limited, a company controlled by Dr. Liu R, holds approximately 20% shares of the investee, and agrees to provide financial support to the investee to settle this loan.

The balance as at 31 December 2016 also 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 and the loan was fully repaid by the borrower on 22 March 2017.
2. 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.

## 21 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. The entire amount was fully refunded during the Period.
- (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.

## 21 TRADE AND OTHER RECEIVABLES (Continued)

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

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

In determining the impairment of trade receivables, the management considers the background of the debtors, credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables.

Management consider that these customers have solid financial background and there has not been a significant change in the credit quality and the balances were still considered fully recoverable.

## 22 SHARE CAPITAL

<b>Ordinary shares</b>	<b>Number of shares '000</b>	<b>Equivalent to HK\$'000</b>
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

## 22 SHARE CAPITAL (Continued)

<b>Preferred shares</b>	<b>Number of shares '000</b>	<b>Equivalent to HK\$'000</b>
Authorised:		
Ordinary shares of HK\$0.01 each		
At 1 January 2016, 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 Company and its subsidiaries 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.

## 23 OTHER RESERVES

	Share premium	Share premium - preferred share	Capital reserve (Note a)	Contributed surplus (Note b)	Share-based payment reserve (Note c)	Exchange translation reserve	Available-for-sale investment reserve	(Accumulated losses)/ retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2017	2,096,146	-	(6,301)	103,941	141,056	(106,394)	-	171,593	2,400,041
Profit for the period	-	-	-	-	-	-	-	445,643	445,643
Other comprehensive loss for the period	-	-	-	-	-	49,342	(235,730)	(750)	(187,138)
Total comprehensive income for the period	-	-	-	-	-	49,342	(235,730)	444,893	258,505
Exercise of share option	43,723	-	-	-	(10,972)	-	-	-	32,751
Change in shareholding in existing subsidiary	-	-	(217)	-	-	-	-	-	(217)
Recognition of share-based payment	-	-	-	-	14,497	-	-	-	14,497
Deemed disposal of a subsidiary	-	-	24,201	-	-	-	-	-	24,201
Balance at 30 June 2017	2,139,869	-	17,683	103,941	144,581	(57,052)	(235,730)	616,486	2,729,778

	Share premium	Share premium - preferred share	Capital reserve (Note a)	Contributed surplus (Note b)	Share-based payment reserve (Note c)	Exchange translation reserve	Accumulated losses	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2016		2,069,865	26,281	(6,301)	103,941	77,930	(61,165)	(349,314)	1,861,237
Profit for the period		-	-	-	-	-	105,529	105,529	
Other comprehensive income for the period		-	-	-	-	6,048	-	6,048	
Total comprehensive income for the period		-	-	-	-	6,048	105,529	111,577	
Derivative financial assets derecognised upon exercise of the underlying options (Note 17)		-	-	-	-	-	(61,016)	(61,016)	
Change in shareholding in existing subsidiary		-	-	-	-	-	(82,392)	(82,392)	
Recognition of share-based payment		-	-	-	-	29,234	-	29,234	
Balance at 30 June 2016		2,069,865	26,281	(6,301)	103,941	107,164	(55,117)	(387,193)	1,858,640

### Notes:

- The balance of capital reserve represents the capital reserve arising from the Company and its subsidiaries restructuring which took place in 1992, and an option right arising from the acquisition of a subsidiary in 2016, and deemed disposal of a subsidiary as set out in note 10 and disposal of another subsidiary.
- The balance of contributed surplus arose as result of the Company's capital reduction exercises which took place in the financial years of 2003 and 2006.
- The balance of share-based payment reserve represents share options granted on 26 August 2014 and 30 September 2015.

## 24 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.

	<b>Unaudited</b> <b>30 June</b> <b>2017</b> <b>HK\$'000</b>	Audited 31 December 2016 HK\$'000
Trade payables		
0 – 90 days	7,550	45,558
Over 90 days	29,148	–
	<b>36,698</b>	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
	<b>181,776</b>	361,520

Notes:

- (a) As at 30 June 2017, the balance represented 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 were 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 Company and its subsidiaries at the end of the reporting period.

## 25 BANK AND OTHER BORROWINGS

	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
<i>Secured bank borrowings:</i> (Note a)		
Current	264,828	264,147
<i>Secured other borrowings:</i> (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 Company and its subsidiaries pledged the equity securities amounting to approximately RMB1,344,610,000 to the financial institution as at 30 June 2017.

The borrowings of the Company and its subsidiaries 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	–
	<b>609,828</b>	264,147



## 26 CONVERTIBLE DEBENTURE

This represents an unsecured convertible debenture issued by Solar Ship. The convertible debenture is denominated in Canadian dollars (“CAD”), outstanding with par value of CAD1,000,000 (equivalent to approximately HK\$6,246,000) bearing interest at 12% per annum and maturing in November 2017 after the extension in November 2016. The convertible debenture holders are entitled to convert the convertible debenture into common shares of Solar Ship at a price of CAD100 per share.

The convertible debenture contain two components, liability and equity elements. The equity element is presented in equity heading “equity component of convertible debenture of a subsidiary”. The effective interest rate of the liability component is 14% per annum.

## 27 CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the period/year but not yet incurred is as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2017</b> <b>HK\$'000</b>	Audited 31 December 2016 HK\$'000
Plant and equipment	<b>268,533</b>	253,107

## 28 RELATED PARTY TRANSACTIONS

For the period ended 30 June 2016 and 2017, there is no related-party transaction.

## 29 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.

## 30 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, and 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.