KUANGCHI SCIENCE LIMITED
光 啟 科 學 有 限 公 司

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

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "Board") of KuangChi Science Limited (the "Company") would like to announce the audited consolidated results of the Company and its subsidiaries for the year ended 31 December 2017 together with the comparative figures for the same period in 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Continuing operations			
Revenue	3	**306,192**	290,492
Cost of sales		**(176,551)**	(92,046)
Gross profit		**129,641**	198,446
Other income	4	**69,867**	39,993
Other gains, net	5	**576,308**	816,969
Impairment loss of goodwill	10	**(32,364)**	(39,382)
Impairment loss of intangible assets	10	**(162,791)**	-
Selling and distribution expenses		**(54,938)**	(39,975)
Research and development expenses		**(255,271)**	(110,027)
Administrative expenses		**(195,899)**	(136,899)
Operating profit		**74,553**	729,125
Finance income		**13,864**	15,323
Finance costs		**(21,416)**	(4,126)
Finance (costs)/income, net	6	**(7,552)**	11,197
Share of results of associates		**(25,455)**	(2,858)
Impairment loss recognised in respect of an investment in an associate		**(8,933)**	-
Profit before tax		**32,613**	737,464
Income tax expense	7	**(99,225)**	(140,430)
(Loss)/profit from continuing operations		**(66,612)**	597,034
Loss from discontinued operation (attributable to owners of the Company)		**–**	(490)
(Loss)/profit for the year		**(66,612)**	596,544
(Loss)/profit attributable to:			
Owners of the Company		**66,051**	664,315
Non-controlling interests		**(132,663)**	(67,771)
		(66,612)	596,544

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
(Loss)/profit for the year		**(66,612)**	596,544
Earnings per share for profit from continuing operations attributable to owners of the Company	9		
Basic (HK cents per share)		**1.08**	11.34
Diluted (HK cents per share)		**1.08**	10.53
Earnings per share for profit attributable to owners of the Company			
Basic (HK cents per share)		**1.08**	11.33
Diluted (HK cents per share)		**1.08**	10.53
Other comprehensive (loss)/income			
Items that may be reclassified to profit or loss:			
Changes in the fair value of available-for-sale financial assets		**(363,041)**	–
Exchange differences on translation of foreign operations		**130,923**	(46,276)
Disposal of a foreign operation		**–**	(1,088)
		(232,118)	(47,364)
Total comprehensive (loss)/income for the year		**(298,730)**	549,180
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(167,956)**	619,086
Non-controlling interests		**(130,774)**	(69,906)
		(298,730)	549,180
Total comprehensive (loss)/income attributable to owners of the Company from			
Continuing operations		**(167,956)**	652,112
Discontinued operation		**–**	(33,026)
		(167,956)	619,086

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	**2017**	2016
		HK$'000	*HK$'000*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**228,409**	149,435
Intangible assets and goodwill	10	**15,438**	256,090
Investment property		**–**	13,800
Investments in associates		**27,582**	33,166
Available-for-sale financial assets		**1,518,572**	29,040
Derivative financial assets	11	**–**	798,912
Prepaid land lease payments		**89,900**	83,581
Deposits for acquisition of plant and equipment		**23,493**	25,634
Loan receivables	14	**–**	21,711
Long-term deposits, prepayments and other receivables	13	**12,859**	5,389
Total non-current assets		**1,916,253**	1,416,758
CURRENT ASSETS			
Prepaid land lease payments		**–**	2,204
Inventories	12	**20,472**	149,310
Trade and other receivables	13	**401,141**	522,938
Loans receivable	14	**24,224**	273,989
Income tax recoverable		**3,614**	2,949
Time deposits		**180,120**	252,005
Structured bank deposits		**–**	13,397
Cash and cash equivalents		**787,477**	870,558
Total current assets		**1,417,048**	2,087,350
Total assets		**3,333,301**	3,504,108
EQUITY			
Share capital		**61,569**	60,894
Other reserves		**2,159,252**	2,228,448
Retained earnings		**237,644**	171,593
Equity attributable to owners of the Company		**2,458,465**	2,460,935
Non-controlling interests		**75,584**	268,776
Total equity		**2,534,049**	2,729,711

	Notes	**2017**	2016
		HK$'000	*HK$'000*
LIABILITIES			
NON-CURRENT LIABILITIES			
Bank and other borrowings		**360,955**	–
Deferred income tax liabilities		**159,086**	118,719
Total non-current liabilities		**520,041**	118,719
CURRENT LIABILITIES			
Trade and other payables	15	**223,935**	287,838
Deferred government grants		**11,528**	73,682
Income tax payable		**8,510**	23,427
Bank and other borrowings		**35,238**	264,147
Convertible debenture		**–**	6,584
Total current liabilities		**279,211**	655,678
Total liabilities		**799,252**	774,397
Total equity and liabilities		**3,333,301**	3,504,108

1 GENERAL INFORMATION

KuangChi Science Limited (the "Company") and its subsidiaries are principally engaged in the research, and development and manufacturing of innovative products for future technology business, and provision of other innovative technology service solution.

The Company is a limited company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The current principal place of its business is Unit 515-518, 5/F, Building 16W, No. 16 Science Park West Avenue, Hong Kong Science Park, Park Shek Kok, New Territories, Hong Kong and, will be relocated to Unit 1220, 12/F., Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong with effect from 1 April 2018.

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

2 BASIS OF PREPARATION

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of KuangChi Science Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for the available-for-sale financial assets, derivative financial assets and an investment property, which are measured at fair value.

(iii) New and amended standards adopted by the Company and its subsidiaries

The Company and its subsidiaries have applied the following standards and amendments to HKFRS issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time for their annual reporting periods commencing 1 January 2017:

HKAS12 (Amendments)	Disclosure of interest in other entities
HKAS 7 (Amendments)	Statement of cash flows
HKFRS 12 (Amendments)	Income taxes

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

(iv) New standards and amendments to HKFRS in issue but not yet effective

Certain new accounting standards and amendments have been published that are not mandatory for 31 December 2017 reporting period and have not been early adopted by the Company and its subsidiaries.

HKFRS 1 (Amendments)	First time adoption of HKFRS (1)
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions (1)
HKFRS 4 (Amendments)	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts (1)
HKFRS 9	Financial instruments (1)
HKFRS 9 (Amendments)	Prepayment features with negative compensation (2)
HKFRS 15	Revenue from contracts with customers (1)
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 (1)
HKAS 28 (Amendments)	Investments in associates and joint ventures (1)
HKAS 40 (Amendments)	Transfer of investment property (1)
HK(IFRIC)-Int22	Foreign currency transactions and advance consideration (1)
HKFRS 16	Leases (2)
HK(IFRIC)-Int23	Uncertainty over income tax treatments (2)
HKFRS 17	Insurance contracts (3)
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate and joint venture (4)
Amendments to HKFRSs	Annual improvements to HKFRSs 2015-2017 Cycle (2)

Note:

(1) Effective for the Company and its subsidiaries for annual period beginning on 1 January 2018.
(2) Effective for the Company and its subsidiaries for annual period beginning on 1 January 2019.
(3) Effective for the Company and its subsidiaries for annual period beginning on 1 January 2021.
(4) Effective date to be determined.

HKFRS 9 Financial Instruments

HKFRS 9, "Financial Instruments" replaces the whole of HKAS 39. HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognized in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss. HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition.

Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognised in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of HKAS39. The Company and its subsidiaries are currently assessing the impact of adopting HKFRS 9 and, based on its preliminary assessment, the impact on the Company and its subsidiaries' financial statements are not expected to be significant.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related Interpretations on revenue recognition. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Company and its subsidiaries have performed preliminary assessment on the adoption of HKFRS 15 and the initial result indicated that the impact on the Company and its subsidiaries' financial statements are not expected to be significant other than changes on the disclosure.

HKFRS 16 Leases

HKFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 "Leases", and related interpretations.

The Company and its subsidiaries are lessees of various properties which are currently classified as operating leases. The Company and its subsidiaries' current accounting policy for such leases is set out in the significant accounting policies section disclosed in the annual report under which operating lease payment is accounted for in the consolidated statements of comprehensive income when incurred and the Company and its subsidiaries' future operating lease commitments are not reflected in the consolidated statement of financial position. As of 31 December 2017, the Company and its subsidiaries' total operating lease commitments amounted to HK$7,290,000.

HKFRS 16 provides new provisions for the accounting treatment of leases and all non-current leases, including future operating lease commitments, must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheets. Operating expenses under otherwise identical circumstances will decrease, and depreciation, amortisation and interest expense will increase. It is expected that certain portion of these lease commitments will be required to be recognised in the balance sheets as right of use assets and lease liabilities.

For the other amendments to standards presented, management is in the process of making an assessment of the likely impact of these changes but is not yet in a position to state whether any substantial changes to the Company and its subsidiaries' significant accounting policies and/or the presentation of its financial statements will result.

3 **REVENUE**

An analysis of the Company and its subsidiaries' revenue for the year is as follows:

	2017	2016
	HK$'000	*HK$'000*
Sales of "Cloud"	**252,596**	284,050
"Cloud" maintenance services	**4,941**	6,082
Sales of chips	**40,412**	–
Provision of wifi network equipment and installation services	**8,213**	–
Rental income	**30**	360
	306,192	290,492

4 **OTHER INCOME**

	2017	2016
	HK$'000	*HK$'000*
Government grants	**69,378**	35,438
Sundry income	**489**	4,555
	69,867	39,993

5 **OTHER GAINS, NET**

	2017	2016
	HK$'000	*HK$'000*
Fair value changes of derivative financial assets *(Note 11)*	**616,404**	(212,523)
Exchange gain/(loss), net	**8,842**	(4,203)
Gain on disposal of a subsidiary	**84**	–
Loss on disposal of plant and equipment	**(350)**	(737)
Loss on derecognition of swap right *(Note 11)*	**(7,674)**	–
Loss on deemed disposal of a subsidiary	**(18,091)**	–
Impairment on available-for-sale financial assets	**(23,270)**	–
Gain on initial recognition of subscription right of Kuang-Chi Technologies Co., Ltd. ("KCT") shares	**–**	1,021,151
Gain on deemed disposal of an investment in an associate	**–**	13,181
Fair value changes of investment property	**–**	100
Others	**363**	–
	576,308	816,969

6 FINANCE (COSTS)/INCOME, NET

	2017	2016
	HK$'000	*HK$'000*
Finance income		
Interest income:		
– Short term and time deposits	**10,446**	12,490
– Loans to third parties	**1,677**	2,263
– Loan to a related party	**1,741**	570
	13,864	15,323
Finance costs		
Interest expenses:		
– Bank and other borrowings	**(27,530)**	(3,382)
– Convertible debenture	**(37)**	(744)
	(27,567)	(4,126)
Amounts capitalised	**6,151**	–
Finance costs	**(21,416)**	(4,126)
Finance (costs)/income, net	**(7,552)**	11,197

7 INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Current income tax		
PRC Corporate Income Tax		
– Current period	**6,511**	21,757
– Under-provision in prior years	**253**	–
	6,764	21,757
Deferred income tax	**92,461**	118,673
	99,225	140,430

8 DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

9 EARNINGS PER SHARE

For continuing operations and discontinued operations

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

Earning figures are calculated as follows:

	2017	2016
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company	**66,051**	664,315
Add: Loss for the year from discontinued operation	**–**	490
Earnings for the purpose of basic earnings per share from continuing operations	**66,051**	664,805
Effect of dilutive potential ordinary shares:		
Adjustment to the share of loss of subsidiaries based on dilution of their earnings per share in relation to the conversion rights	**–**	(17,672)
Earnings for the purpose of diluted earnings per share from continuing operations	**66,051**	647,133

	2017	2016
Number of shares (in thousands)		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,110,545**	5,864,344
Effect of dilutive potential ordinary shares:		
Preferred shares	**–**	225,057
Share options of the Company	**27,677**	53,924
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,138,222**	6,143,325

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

	2017	2016
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share	**66,051**	664,315
Effect of dilutive potential ordinary shares:		
Adjustment to the share of loss of subsidiaries based on dilution of their earnings per share in relation to the conversion rights	**–**	(17,672)
Earnings for the purpose of diluted earnings per share from continuing operations	**66,051**	646,643

Basic earnings per share ("EPS") is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

The share options granted by the Company have potential dilutive effect on the EPS. Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and preferred shares, granted by the Company (collectively forming the denominator for computing the diluted EPS). No adjustment is made to earnings (numerator).

In addition, the preferred shares granted by the Company's non-wholly owned subsidiaries and associates, and the convertible bonds of the subsidiaries could have potential dilutive effect on the EPS. During the year ended 31 December 2017, these share options, preferred shares and convertible bonds had anti-dilutive effect to the Company and its subsidiaries and associates.

10 INTANGIBLE ASSETS AND GOODWILL

	Goodwill *HK$'000*	Capitalised development cost *HK$'000*	Software *HK$'000*	Technical knowhow and patents *HK$'000*	Total *HK$'000*
COST					
At 1 January 2016	155,800	38,214	3,184	115,134	312,332
Acquisition of a subsidiary	9,199	–	–	6,946	16,145
Additions	–	69,685	1,877	509	72,071
Disposal of a subsidiary	(84,054)	–	–	–	(84,054)
Currency translation differences	–	(51)	650	2,629	3,228
At 31 December 2016 and 1 January 2017	80,945	107,848	5,711	125,218	319,722
Additions	–	25,091	47	241	25,379
Deemed disposal of a subsidiary	(39,382)	(28,554)	–	(47,436)	(115,372)
Currency translation differences	65	1,199	(1)	858	2,121
At 31 December 2017	41,628	105,584	5,757	78,881	231,850
ACCUMULATED AMORTISATION AND IMPAIRMENT					
At 1 January 2016	84,054	–	657	8,405	93,116
Amortisation	–	–	2,553	11,891	14,444
Provision for impairment	39,382	–	–	–	39,382
Disposal of a subsidiary	(84,054)	–	–	–	(84,054)
Currency translation differences	–	–	607	137	744
At 31 December 2016 and 1 January 2017	39,382	–	3,817	20,433	63,632
Amortisation	–	–	540	4,774	5,314
Deemed disposal of a subsidiary	(39,382)	–	–	(7,710)	(47,092)
Provision for impairment *(Note)*	32,364	106,006	1,407	55,378	195,155
Currency translation differences	–	(422)	(7)	(168)	(597)
At 31 December 2017	32,364	105,584	5,757	72,707	216,412
CARRYING VALUES					
At 31 December 2017	9,264	–	–	6,174	15,438
At 31 December 2016	41,563	107,848	1,894	104,785	256,090

Note:

During the year ended 31 December 2017, the management of the Company and its subsidiaries recognised provision for impairment of approximately HK$32,364,000 and approximately HK$162,791,000 to the goodwill and intangible assets of the jetpack products business ("Jetpack CGU"), respectively (2016: Nil). The current engine in jetpack products has proved sufficient for test and demonstration purposes. However, the market is seeking for certified products. Without further investment on the current engine or alternative proven engine, the management expected it may not be viable for it to obtain an airworthiness certificate. As such, provision for impairment was made to the relevant goodwill and intangible assets.

11 DERIVATIVE FINANCIAL ASSETS

	Share swap	Right to subscribe for convertible securities	Right to subscribe for shares	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	20,116	31,184	–	51,300
Recognition of subscription right	–	–	1,021,151	1,021,151
Fair value changes recognised in the profit or loss	9,954	7,436	(229,913)	(212,523)
Derecognised upon exercise of underlying options	(22,396)	(38,620)	–	(61,016)
At 31 December 2016 and 1 January 2017	7,674	–	791,238	798,912
Fair value changes recognised in the profit or loss	–	–	616,404	616,404
Derecognition upon expiry of underlying options	(7,674)	–	–	(7,674)
Derecognition upon exercise of subscription right	–	–	(1,419,691)	(1,419,691)
Currency translation differences	–	–	12,049	12,049
At 31 December 2017	–	–	–	–

12 INVENTORIES

	2017	2016
	HK$'000	*HK$'000*
Raw materials	**20,472**	22,339
Finished goods	**–**	126,971
	20,472	149,310

13 TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables *(Note a)*	**358,856**	326,994
Less: provision for doubtful receivables	**(24,916)**	–
Trade receivables, net	**333,940**	326,994
Deposits and other receivables	**17,893**	11,948
Interest receivables	**4,096**	4,049
Prepayment for advertising	**5,664**	10,971
Prepayments to suppliers	**38,282**	42,870
Earnest monies paid *(Note b)*	**–**	126,354
Prepaid consultancy fee	**–**	5,141
Rental prepayment	**19,463**	–
	419,338	528,327
Less: impairment of prepayment and doubtful receivables	**(5,338)**	–
	414,000	528,327
Less: non-current portion	**(12,859)**	(5,389)
	401,141	522,938

The Company and its subsidiaries did not hold any collateral over these balances (2016: Nil).

Notes:

a. Included in the trade receivables of approximately HK$9,678,000 represented the sales of wifi network equipment by a subsidiary of the Company to a related company, Photon Technology, which is controlled by Dr. Liu Ruopeng.

b. As at 31 December 2016, the balance represented earnest monies paid for two investment projects, which were interest free and refundable. The balance was fully refunded to the Company during the year ended 31 December 2017.

The Company and its subsidiaries' trade and other receivables are denominated in the following:

	2017	2016
	HK$'000	*HK$'000*
HK$	**2,251**	–
Renminbi ("RMB")	**392,975**	528,327
United States dollars ("US$")	**24,112**	–
	419,338	528,327

The following is an aging analysis of trade receivables presented based on date of revenue recognition as at 31 December 2017 and 2016:

	2017	2016
	HK$'000	*HK$'000*
Trade receivables		
0-90 days	**94,958**	6,810
91-180 days	**31,063**	–
181-365 days	**–**	221,047
over 365 days	**207,919**	99,137
	333,940	326,994

As at 31 December 2017, trade receivables of approximately HK$228,110,000 (2016: HK$97,574,000) are passed due but not impaired. The aging analysis of trade receivables which are past due but not impaired is presented as follows:

	2017	2016
	HK$'000	*HK$'000*
Overdue by		
0-90 days	**23,192**	18,086
91-180 days	**–**	41,530
181-365 days	**129,686**	37,958
Over 365 days	**75,232**	–
	228,110	97,574

14 LOANS RECEIVABLE

	2017	2016
	HK$'000	*HK$'000*
Non-current portion		
– Loan to a related party	**–**	21,711
Current portion		
– Loan to a related party	**24,224**	–
– Loan to third parties	**2,368**	273,989
– Loan to an associate	**22,378**	–
	48,970	295,700
Less: provision for impairment of loans receivable	**(24,746)**	–
	24,224	295,700

15 TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**48,661**	45,558
Receipt in advance	**9,397**	98,969
Deposit received	**–**	67
Accrued employee benefits	**22,192**	33,650
Other tax payables *(Note a)*	**94,058**	73,783
Other payables and accruals	**49,627**	35,811
	223,935	287,838

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

	2017	2016
	HK$'000	*HK$'000*
Trade payables		
0-90 days	**36,223**	45,558
Over 90 days	**12,438**	–
	48,661	45,558

The Company and its subsidiaries' trade payables are denominated in the following:

	2017	2016
	HK$'000	*HK$'000*
RMB	**29,571**	45,558
US$	**19,090**	–
	48,661	45,558

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

Notes:

(a) At 31 December 2017, other tax payables mainly include value-added tax payables amounting to HK$82,655,000 (2016: HK$66,217,000) arising from the sales of Clouds.

16 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

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").

Management is confident in the prospect of the market and the future growth and development of the Company. For the twelve months ended 31 December 2017 (the "Year"), profit attributable to owners of the Company was HK$66,051,000. The Company and its subsidiaries recorded a turnover of HK$306,192,000, representing an increase of 5.40% over last year. Gross profit was HK$129,641,000 and gross profit margin was 42.34%. Net loss was HK$66,612,000, decreased from net profit of HK$596,544,000 in last year. During the Year, the Company and its subsidiaries also generated other gains, net of HK$576,308,000, which was mainly attributable to the gain on investments of the Company and its subsidiaries, amounting HK$616,404,000. Basic earnings per share decreased to 1.08 HK cents.

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

Given the enormous challenges in urban development around the world and the exponential growth of urbanization, cities are required to build the mature "Smart City" through efficient adoption and implementation of smart solutions, so as to improve urban operational efficiency. In the "Report of the Development of New Smart City in 2017", the assessment of China's new smart city is disclosed for the first time, the average score of 220 cities is 58.03, more than half of these cities are only at early stage. As the fundamental technical support for the construction of smart cities, the AI industry received great support and attention from the PRC government. 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 is expected to bring the core AI industry to a size of RMB150 billion in 2020.

In view of the global and national policy trends, the Company and its subsidiaries put their focus on the Future Technology Business. They are committed to building future smart cities by developing and integrating different future technologies, including "future space" technology and "future AI" technology, which allow them to provide a comprehensive range of innovative products, services and solutions. Through these efforts, they can enhance service efficiency, cater to residents' needs, upgrade living quality and, in particular, solve various problems that are faced by human beings. Specifically, their initiatives can be categorized into three aspects, namely safety, sustainability and space utilisation. On safety, they focus on emergency response of safety and prevention and disaster prevention and warning. On sustainability, they emphasise on environmental protection. On space utilisation, they provide communication and connecting services.

In terms of the "future space" technology business, during the Year, the subsidiary of the Company entered into contracts in relation to the "Cloud" project with new cities, and actively worked towards the milestone in project development. Meanwhile, the successful test flight of the near-space flying apparatus "Traveller III" marked the first case of sending live animals into near-space with flying apparatus, demonstrating the feasibility of various core technology for near space tourism. During the Year, the Company achieved the initial results in the field of low-flying aerostats and launched two low-flying aircraft, namely "KC60" and "H1", which had applications in air emergence rescue and long-time air communication monitoring. In addition, the Company further expanded the pipeline inspection and application of energy facilities sector, and prompted the development of unmanned aerial vehicle for the pipeline inspection of energy facilities and the commercialization process of automatic remote solution of unmanned aerial vehicle, the "SkyX" project. It speeded up exploring the commercial market and expanding the development and application in the PRC future flight experience and the emergency and fire safety market by prompting the individual jetpack "KuangChi Martin Jetpack". In the meantime, in order to achieve the in-depth exploration of vertical industries and sectors, 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 engines and aviation products, for the joint research and development and enhancement of the future space technology and accelerating the process of product commercialisation. During the Year, the Company and its subsidiaries also entered into the strategic cooperation framework agreements with the People's Governments of Xiong'an New District and Baoding City, in relation to the proposed establishment of Kuangchi Institute of Advanced Technology for New Engines and development of the innovation and industrial base for new engines, which aimed to gradually establish the industrialization capacity of new engine.

In terms of the "future AI" technology business, the Company and its subsidiaries spared no effort in establishing a presence in the AI industry and supported the development of new generation of smart public security and smart public transportation. During the Year, they invested in the AI industry and actively introduced strategic partners from different fields, through which they developed vertical sectors in a comprehensive manner and explored blue ocean market. To push forward the in-depth cooperation in AI, smart public security and smart public transportation, the Company and its subsidiaries entered into the strategic cooperation agreement with Shenzhen Bus Group Company Limited ("Shenzhen Bus Group"), Shenzhen Zhongjing Huayu Group Co., Ltd. ("Zhongjing Group"), Hangzhou Future Sci-Tech City and China United Network Communications Corporation Limited ("China Unicom") in relation to the AI industry and other innovative industries during the Year. On the other hand, the Company and its subsidiaries also signed the strategic cooperation agreements with the governments of Xiong'an New District and Fuyang City, assisting them in developing smart transport and smart public security. During the Year, 深圳光啟智雲信息有限公司, an indirectly wholly-owned subsidiary of the Company, participated in the construction of "Smart Qianhai" in Qianhai, Shenzhen, and made initial progress in the Qianhai public ultra-high-speed WIFI network project. Meanwhile, the Company and its subsidiaries conducted the independent research and development of Intelligent Auto-Tracking system which was used in the aspects of smart safety and prevention as well as smart public safety and provided the pre-caution, support and service of preventing crowd and trample calamity for various public safety authorities. Moreover, the Company and its subsidiaries continued the research on voice recognition and video analytics identification along with other products and solutions in the pharmaceutical industry and smart cities. They assisted 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, in their development in the PRC market as well as the establishment of smart cities.

During the year, revenue from the Future Technology Business was approximately HK$306,162,000, representing an increase of 5.53% over last year. Of the revenue, the Company and its subsidiaries' fastest commercialised "Cloud" products accounted for HK$257,537,000. In respect of products of the Future Technology Business, the Company and its subsidiaries incurred selling and distribution expenses of HK$54,938,000, research and development expenses of HK$255,271,000 and administrative expenses of HK$195,899,000.

Secured contracts of the "Cloud" project with new cities, extending the applications in anti-terrorism and security

As a flying application platform for smart cities, the "Cloud" not only has heavy loading capacity and extensive coverage, but also combines communication, optical remote sensing, surveillance and monitoring through the Internet of Things, big data collection and analysis and other functions, all of which can lead to construct the integrated space-earth network platform for smart cities.

In September 2017, the "Cloud" was used in Xinjiang to provide aerial security and defence service applications to solve the communication difficulties in mountainous regions and areas at higher altitude, failure of communication with the command centre and communication breakdown, while expanding the applications of the "Cloud" in anti-terrorism and security. Management is of the view that the "Cloud" project will have a huge demand and promising prospects in the public security market.

During the Year, the Company and its subsidiaries entered into the sales and operating agreement in relation to the "Cloud" project with a new city. The test flight was completed and deployed in December 2017. New application areas of the "Cloud" project in the new city 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 involved active communication with the administrative units and departments for exploring and cooperating in city security management, anti-terrorism and riot control, major dam monitoring, comprehensive forest monitoring and large event management.

During the Year, the existing "Cloud" projects continued to operate steadily, providing a wide range of applications and services for different cities, and carried out in-depth cooperation and follow-ups with local authorities, initiating emergency data analysis, traffic survey, urban traffic monitoring and monitoring of water levels in reservoirs and other applications. This provided big-data for city administrators on city surveillance, ecological monitoring and emergency communication.

"Traveller III" completed the test flight, marking the first case of sending live animals into the near-space

During the Year, "Traveller III" completed the flight test in Xinjiang, China in October 2017, sending a live animal into the near space at a targeted altitude of 21 km. Experiments in relation to near-space environmental control and life support, space-earth communication, and space information collection were carried out and the device landed on the designated spot after 4 hours of flights. The life support pod was retrieved and the vital signs of the animal inside were good.

The successful flight test of "Traveller III" marked the first case of sending live animals into near-space with flying apparatus, demonstrated the feasibility of various core technology in near space tourism and signified that China's technology in near space flying has reached a new height. In addition, the "Traveller" series has other applications in communication, optical remote sensing, the Internet of Things, big data collection and analysis, which provide the technology exploration platform for smart city, remote communication and astrophysics.

Expand the layout of the air emergency rescue industry and launch the "KC-60" air emergency rescue platform product

KC-60 is an unmanned aerial vehicle (UAV) system for air emergency rescue. It is a special aviation equipment specially developed to deal with the safety incidents and natural disasters such as the fire-fighting within high-rise and super high-rise buildings in urban area, forest fire-fighting, water rescue and wild rescue. Its products and technical advantages include heavy load, long life, withstanding of strong weather such as wind and rain and strong environmental adaptability.

During the year, "KC-60" products were prompted to various domestic urban public security bureaus, fire stations and safety supervision bureaus and bridged with the relevant bureaus and the emergency rescue and pipeline inspection plans were proposed. It is planned to cooperate with a number of urban fire stations in 2018 for commercial expansion.

Enriched the product offering in the low-flying aircraft series, while "H1" completed research and development and began product testing

The "H1" tethered unmanned aircraft is an aerial surveillance and relay platform system with heavy vehicle loading capacity, tethering equipment and multiple blades. It has long flight endurance, high loading capacity and excellent mobility. Its applications mainly include city security monitoring, traffic monitoring, border patrol, emergency communication, communication relay, fire-fighting support, live match broadcasting, resorts and forest monitoring.

During the Year, the research and development results of "H1" have undergone testing. The main applications of "H1" included public security, fire-fighting and emergency communication and successfully participated in the anti-terrorism drill project organised by the Ministry of Public Security, as well as conducted the flight demonstration held for security enterprises. For the purpose of smart public security and smart security, the "Cloud" can carry out security monitoring of the whole city and closely monitor the streets with the more flexible product "H1" to achieve seamless coverage of the city.

"SkyX" entered into the commercial phase, and successfully delivered natural gas pipeline monitoring services to Mexico's energy company

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 cover 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. Given its high efficiency, it costs little energy. Meanwhile, the ground relay station and self-manufactured charging facility of the multifunctional helipad "xStation" allow the unmanned aircraft to operate for long hours and distances so as to cover large areas by relaying. The unmanned aircraft management system "SkyOne", which collects and analyses data and information from monitoring, provides a reliable aerial platform for oil pipelines patrol, powerline patrol, border patrol, island patrol and other applications.

During the Year, 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 November 2017, "SkyX" project provided natural gas pipeline monitoring service to an energy company in Mexico and successfully completed the unattended data collection flight over 100kilometers of natural gas pipelines. By viewing high-resolution images, it identified over 200 potential anomalous nodes along pipelines. During the Year, the application of "SkyOne" was explored with various domestic petrochemical enterprises and power grid companies, which further studied and promoted its commercialisation in the future.

Manned and unmanned versions of "KuangChi Martin Jetpack" completed the test flight

During the Year, the P14 unmanned version and the Series 1 manned version of "KuangChi Martin Jetpack" completed the first free flight. The Series 1 manned version of the jetpack also completed the test on flight performance and control function, and underwent battery life enhancement. Considering the potential of different markets, the Company and its subsidiary will start to explore the opportunity and development in the China market.

Enhanced future space technology through strategic investment in Gilo, a company engaged in the research and development and manufacture of aviation and aerospace technology solutions, as well as the establishment of institute and industrial base of advanced technology for new engines

During the Year, 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 the research and development and manufacture of aviation and aerospace technology and solutions. 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. The subsidiary of the Company plans to cooperate with Gilo in the technology, product and innovation aspects in relation to future space technology, with the view of jointly developing and expediting the commercialisation and industrialisation of space technology and products.

In September 2017, the Company and its subsidiaries entered into the strategic cooperation framework agreement with the government of Xiong'an New District. Pursuant to the agreement, the parties would draw on the technical capability of the Company's innovation team to establish Kuangchi Institute of Advanced Technology for New Engines in line with the industry direction and development plan of Xiong'an New District. They would also promote the industrialisation of their globally-leading technological achievements, facilitate technological innovation and economic growth of the local region, and achieve mutual development.

In September 2017, the Company and its subsidiaries entered into the strategic cooperation framework agreement with the government of Baoding City to construct an innovative industry base for new engines (the "Engine Industry Base"), and entered into the strategic cooperation framework agreement with the government of Xiong'an new district to establish Kuangchi Institute of Advanced Technology for New Engines, which would mainly manufacture lightweight/ultra-lightweight flying apparatus, drone power units; and providing power units for range extender of new energy automobiles, portable power generators.

Established a presence in the AI industry, introduced strategic partners from various sectors, developed vertical sectors comprehensively and prompted "Smart City"

The Company and its subsidiaries explore the demand and application in different sectors, pursue the expansion and diversification of the future city business, extend the application of AI in various industries and sectors, actively introduce strategic partnership, including Shenzhen Bus Group, Zhongjing Group, Hangzhou Future Sci-Tech City (杭州未來科技城) and China Unicom, so as to offer solution and value for comprehensive city application from different aspects.

In the meantime, the Company and its subsidiaries strengthened the cooperation with various new "Smart City" pilot sites. With a well-established presence in Dongguan, Zunyi, Xinjiang, Chengdu and Shenzhen, they actively sought to promote "Smart City" projects in Xiong'an New District, Fuyang City and other cities. During the Year, the Company and its subsidiaries entered into the cooperation agreement with Xiong'an New District and Fuyang City. Focusing on the areas of smart security and smart transport, it drove the intensive reform of smart cities, expanded and conducted the AI-related projects.

During the year, the Company and its subsidiaries independently developed intelligent tracking systems to develop the functions such as people counting, regional population statistics, target tracking and face recognition, which are used in large-scale activities and monitoring of crowd flow in densely populated streets as well as statistics, as well as identification of key high-risk groups and track. During the year, the system started business cooperation with the public security bureau of various provinces and municipalities, and conducted further cooperation and negotiations, so as to form relevant real combat application. At the same time, the system provided traffic statistics and anti-crowding stampede service to Longgang Public Security Bureau of Shenzhen, and delivered services for a number of concerts and NBA security services. During the holiday period in the second half of 2017, the system completed two laboratories and provided systematic services to densely populated areas such as Chongqing Jiefangbei and Shanghai Bund, covering target tracking and anti-crowding trample.

In August 2017, the Company entered into the strategic cooperation framework agreement with Shenzhen Bus Group, which would prompt 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, the Internet of Things, cloud platform and big data analysis, expedite the realisation of smart transportation and push forward the construction 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.

In September 2017, Shenzhen Kuangchi Space Technology Limited, a wholly-owned subsidiary of the Company, entered into the strategic cooperation framework agreement with Zhongjing Group, in order to conduct cooperation in the areas of smart security and smart public security involved the transformation and application of new aviation equipment technology and safety and rescue technology, exploration of market demand for police gear and fire equipment.

In September 2017, Shenzhen KuangChi Space Technology Limited, a wholly-owned subsidiary of the Company, entered into the strategic cooperation agreement with Hangzhou Future Sci-Tech City (杭州未來科技城) regarding the AI industry and other innovation industries. The cooperation included the construction of integrated regional headquarters in Hangzhou Future Sci-Tech City, which would comprise the Hangzhou KuangChi Future Technology Institute, industrial companies, industry incubation centers and upstream and downstream industries. Meanwhile, both parties would set up the comprehensive pilot project in the field of AI and establish the AI innovation and industry centers, so as to achieve in-depth vertical exploration.

In December 2017, the Company entered into the business cooperation framework agreement with China Unicom to jointly pursue and develop projects relating to smart city. The parties would integrate AI technology, communication service and intelligent operation, and cooperate in the area of smart transport, as well as also develop solutions for public security and commence cooperation with a focus on the "policing technology sharing platform".

Management believes that the independent research and development and introduction of multi-industry strategic partners, deep vertical development and deployment of artificial intelligence industry will lead to deep changes of "smart cities".

Manpower development

With regard to staff development, the Company strengthened the talent nurturing 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 Year, the Company and its subsidiaries brought in 357 experts on high and new technology from around the world and 35% of them 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 disposed of its indirect subsidiary and the investment property at a consideration of HK$9,900,000 in January 2017.

Other results

The Company granted replacement and new share options to directors and employees of the Company and its subsidiaries in 2015, and the relevant share-based payment expenses for the year was approximately HK$33,188,000 (2016: HK$63,126,000).

Net exchange gain of approximately HK$8,842,000 was recognised during the year (2016: net exchange loss of HK$4,203,000) and it was mainly due to the appreciation of RMB to HKD in 2017.

CAPITAL STRUCTURE

On 30 September 2015, the Board of Company announced that the Company will cancel a total of 67,537,000 share options granted to certain Directors and employees of the Company and its subsidiaries on 26 August 2014 and the Company will conditionally grant 67,537,000 new share options as replacement options to the relevant grantees. On the same day, the Board of the Company further announced that the Company will conditionally grant 70,000,000 new share options to certain Directors and employees of the Company and its subsidiaries under the share option scheme adopted by the Company on 31 July 2012(the "Share Option Scheme").

On 11 January 2017, certain Directors and employees exercised certain options under the Share Option Scheme to allot 20,546,377 ordinary shares of the Company. On 22 December 2017, certain Directors and employees exercised certain options under the Share Option Scheme to allot 46,981,358 ordinary shares of the Company. As at 31 December 2017, the balance of issued ordinary shares is 6,156,928,860.

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 years ended 31 December 2016 and 2015, approximately HK$217,728,000 and 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 year:

Intended use of proceeds

	Unutilised proceeds as at 1 January 2017	**Utilised during the year**	**Unutilised proceeds as at 31 December 2017**
	HK$'000	*HK$'000*	*HK$'000*
Acquisition of land site and construction of manufacturing facilities and expansion of production capacity for the Future Technology Business	739,304	(125,189)	614,115
Research and development for products and expenses for the Future Technology Business	43,439	(43,439)	–
General working capital	–	–	–
Global merger and acquisition of In-depth space services industry and products	–	–	–
	782,743	(168,628)	614,115

During the year, approximately HK$168,628,000 was used as specified in the annual report of year 2014 for purchase of additional plant and equipment for the Future Technology Business.

The unused proceeds up to 31 December 2017 were approximately HK$614,115,000. 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 31 December 2017, the total shareholders' funds of the Company and its subsidiaries amounted to approximately HK$2,534,049,000 (31 December 2016: HK$2,729,711,000), the total assets of approximately HK$3,333,301,000 (31 December 2016: HK$3,504,108,000) and the total liabilities of approximately HK$799,252,000 (31 December 2016: HK$774,397,000).

As at 31 December 2017, the Company and its subsidiaries had bank balances and cash of approximately HK$787,477,000 (31 December 2016: HK$870,558,000), time deposits of approximately HK$180,120,000 (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 31 December 2017, defined as the percentage of the total interest bearing debt, including bank and other borrowings of approximately HK$396,193,000 (31 December 2016: HK$264,147,000 and convertible debenture of approximately HK$6,584,000), to net asset value, was approximately 15.63% (31 December 2016: 9.92%).

The Company and its subsidiaries' business operations and investments are in PRC, Hong Kong, New Zealand and Canada. Cash and bank balances as at 31 December 2017 mainly included HK$133,764,000, HK$346,334,000, HK$21,716,000, HK$421,482,000 and HK$35,448,000 denominated in HK$, RMB, NZD, USD and CAD respectively. Other than described above, most of the assets, liabilities and transactions of the Company and its subsidiaries are primarily denominated in HK$ and RMB. The Company and its subsidiaries has 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.

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

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

Investment in SkyX

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

Pursuant to the PSP Agreement, the Company acquired additional preferred shares of Sky X on 9 September 2016 of 775,194 shares, 12 May 2017 of 168,350 shares and 21 June 2017 of 168,350 shares for cash considerations amounting to USD2,000,000, USD500,000 and USD500,000 respectively, as certain SKY X conditions were fulfilled.

As at 31 December 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 or 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 31 December 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 31 December 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 year.

KC Subscription in Kuang-Chi Technologies Co., Ltd. ("KCT", formerly known as "Zhejiang Longsheng Automotive Parts Corporation Limited ("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 certain conditions of the subscription agreement have been satisfied. The subscription right is a derivative that measured at fair value through profit or loss. 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 changes in fair value of HK$229,913,000. The subscription has been completed and 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 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 statement of profit or loss. Subsequent to the completion of subscription on 13 February 2017, the Company and its subsidiaries holds approximately 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$427,108,000 from 13 February 2017 to 31 December 2017 was recognised in other comprehensive loss.

EVENT AFTER THE REPORTING YEAR

Reference is made to the announcement of the Company dated 28 February 2018 in relation to the request for removal from the official list of the Australian Securities Exchange (the "ASX") by a non-wholly-owned subsidiary voluntarily. The Company was informed by the board of directors (the "MACL Board") of Martin Aircraft Company Limited ("MACL"), a non-wholly-owned subsidiary of the Company with its shares listed on the ASX under stock code MJP, and according to the announcement of MACL dated 28 February 2018 published on the ASX website (the "MACL Announcement"), that following the receipt of in-principle approval from the ASX, the MACL Board has issued a formal request to the ASX on 28 February 2018 for MACL to be removed from the official list of the ASX, subject to the satisfaction of standard conditions (including MACL's shareholder approval having been obtained) (the "Proposed Privatisation"). The Company considers that the Proposed Privatisation will not have any impact on MACL's Jetpack product development and business.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Company and its subsidiaries had approximately 837 employees. The Company and its subsidiaries provide competitive remuneration packages to employees with the share option scheme and the restricted shares award scheme. The Company and its subsidiaries also provide attractive discretionary bonus payable to those with outstanding performance and contribution to the Company and its subsidiaries.

CORPORATE GOVERNANCE PRACTICES

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

The Board is responsible for performing the corporate governance functions with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "CG Code"). During the year under review, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Company's code of conduct, and the Company's compliance with the Code Provision and disclosure in this Corporate Governance Report.

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

Code provisions A.6.7 and E.1.2 of the CG Code stipulate that independent non-executive directors, non-executive directors and the chairman of the board of directors should attend annual general meetings. The two non-executive Directors, Mr. Ko Chun Shun Johnson and Mr. Song Dawei, and an independent non-executive Director Dr. Wong Kai Kit, did not attend the annual general meeting held on 28 June 2017, due to other business commitments.

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2017, nor has any dividend been proposed for the year ended 31 December 2017 (year ended 31 December 2016: Nil).

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code") as its model code for securities transactions by Directors. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code during the year ended 31 December 2017.

CHANGE OF DIRECTORS' INFORMATION

The change of Director's information as required to be disclosed pursuant to Rule 13.51B of the Listing Rules are set out below:

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

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

3. Mr. Ko Chun Shun, Johnson was re-designated from executive director to non-executive director with effect from 16 May 2017; and

4. Dr. Liu Ruopeng was appointed as a Chairman of Kuang-Chi Technologies Co., Ltd. with effect from 25 April 2017.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") comprises three independent non-executive directors of the Company. The Audit Committee has adopted terms of reference which are in line with the CG Code. The Audit Committee has reviewed the Company and its subsidiaries' audited results for the year ended 31 December 2017 and agreed with the accounting treatment adopted. The Audit Committee is satisfied with the Company and its subsidiaries' internal control procedure and financial reporting disclosures.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017. Also, the figures in respect of this results announcement have been agreed by the Company's external auditors, PricewaterhouseCoopers, to the amounts set out in the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopes on this results announcement.

PUBLICATION OF THE 2017 ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.kuangchiscience.com), respectively. The Company will dispatch the annual report of the Company for the year ended 31 December 2017 to the shareholders of the Company in due course, which will also be published on the websites of the Company and the Stock Exchange.

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

Hong Kong, 16 March 2018

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