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KUANGCHI SCIENCE LIMITED

光啟科學有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

The board of directors (the “Board”) of KuangChi Science Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	Six months ended 30 September	
		2014 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Unaudited)
Turnover	3	45,303	60,231
Cost of sales		<u>(37,329)</u>	<u>(50,151)</u>
Gross profit		7,974	10,080
Other operating income	4	1,540	940
Selling expenses		(1,546)	(1,491)
Administrative expenses		(13,950)	(7,064)
Research and development expenses		(20,000)	–
Impairment loss recognised in respect of goodwill	12	(9,000)	–
Loss on change in fair value of investment properties	11	(392)	–
Gain on changes in fair value of held for trading investments		864	267
Gain on disposal of subsidiaries	17	3,303	–
Finance costs	5	<u>(181)</u>	<u>(206)</u>
(Loss) profit before tax		(31,388)	2,526
Income tax expense	6	<u>(492)</u>	<u>(499)</u>
(Loss) profit for the period attributable to owners of the Company	7	<u><u>(31,880)</u></u>	<u><u>2,027</u></u>

	Six months ended	
	30 September	
	2014	2013
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Other comprehensive income may be subsequently reclassified to profit or loss		
Exchange differences arising on translating foreign operations and total other comprehensive income	<u>60</u>	<u>764</u>
Total comprehensive (expense) income for the period	<u>(31,820)</u>	<u>2,791</u>
(LOSS) EARNINGS PER SHARE		
Basic (loss) earnings per share (in Hong Kong cents)	8 (1.76)	0.15
Diluted (loss) earnings per share (in Hong Kong cents)	8 (1.76)	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2014	31 March 2014
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Plant and equipment	10	31,982	28,932
Investment properties	10	12,600	25,600
Prepaid lease payments	17	–	8,733
Goodwill	12	38,661	47,661
		83,243	110,926
Current assets			
Inventories		19,053	16,835
Trade receivables, deposits and other receivables	12	16,690	13,007
Prepaid lease payments	17	–	216
Income Tax Recoverable		–	147
Held for trading investments		–	4,260
Cash and cash equivalents		1,772,854	44,324
		1,808,597	78,789
Asset classified as held for sale	11	12,608	–
		1,821,205	78,789
Current liabilities			
Trade and other payables	14	72,331	13,752
Amount due to a related company		170	170
Obligations under finance lease			
— amount due within one year		1,283	1,283
Bank borrowings		5,666	5,754
Income tax payable		393	34
		79,843	20,993
Net current assets		1,741,362	57,796
Total assets less current liabilities		1,824,605	168,722

		30 September 2014	31 March 2014
	<i>Notes</i>	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current liabilities			
Obligations under finance lease			
— amount due after one year		700	1,400
Deferred tax liabilities		157	157
		<u>857</u>	<u>1,557</u>
Net assets		<u>1,823,748</u>	<u>167,165</u>
Capital and reserves			
Share capital — Ordinary Shares	<i>15</i>	34,061	14,495
Share capital — Preferred Shares	<i>15</i>	10,733	–
Reserves		<u>1,778,954</u>	<u>152,670</u>
Equity attributable to owners of the Company		<u>1,823,748</u>	<u>167,165</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values, as appropriate. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2014. In addition, the Group has applied the following accounting policy for non-current assets held for sale, revenue from a contract and share options granted during the current interim period:

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

Revenue recognition

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;
- servicing fees are recognised by reference to the proportion of the total cost of providing the service; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.

Equity-settled share-based payment transactions

Share options granted to employees

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant for the preparation of the Group’s condensed consolidated financial statements:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities
- Amendments to HKAS 32, Offsetting financial assets and financial liabilities
- Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets
- Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting
- HK(IFRIC)–Int 21, Levies

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early adopted new or revised HKFRSs, interpretations and amendments (hereinafter collectively referred to as “New HKFRSs”) that have been issued but are not yet effective as set out in the Group’s annual financial statement for the year ended 31 March 2014.

3. TURNOVER AND SEGMENT INFORMATION

During the period, the Group has newly established the novel space services and other innovative technology business segment (“novel space services”). The Group applies the technology developed in respect of the civil near space flying apparatus to provide various novel space services, including but not limited to telecommunication, mineral exploration, meteorological observations and surveillance, space tourism and disaster detection, etc.

The executive directors of the Company reviewed the sales of major products for the purpose of resources allocation and performance assessment and considered that the Group operates in three business units, and has three reportable and operating segments: paper business, the novel space services and property investment.

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

For the six months ended 30 September (Unaudited)

	Paper business		Novel space services		Property investment		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>44,895</u>	<u>59,854</u>	<u>-</u>	<u>-</u>	<u>408</u>	<u>377</u>	<u>45,303</u>	<u>60,231</u>
Segment (loss) profit	<u>(7,159)</u>	<u>3,479</u>	<u>(25,093)</u>	<u>-</u>	<u>16</u>	<u>377</u>	<u>(32,236)</u>	<u>3,856</u>
Unallocated corporate income							1,867	472
Unallocated corporate expenses							(4,141)	(1,596)
Gain on disposal of subsidiaries							3,303	-
Finance costs							(181)	(206)
(Loss) Profit before tax							<u>(31,388)</u>	<u>2,526</u>

Segment profit represents the profit earned by each segment without allocation of central corporate income and expense, directors' remuneration, certain other income, dividend income and finance costs. This is the measure reported to the executive directors for the purposes of resource allocation and performance assessment.

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

Segment assets

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
Paper business	100,378	114,766
Novel space services	5,564	-
Property investment	<u>12,900</u>	<u>25,895</u>
Total segment assets	118,842	140,661
Investment property classified as assets held for sale	12,608	-
Unallocated corporate assets	<u>1,772,998</u>	<u>49,054</u>
Consolidated assets	<u>1,904,448</u>	<u>189,715</u>

Segment liabilities

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
Paper business	18,522	11,853
Novel space services	39,030	–
Property investment	1,473	125
	<hr/>	<hr/>
Total segment liabilities	59,025	11,978
Unallocated corporate liabilities	21,675	10,572
	<hr/>	<hr/>
Consolidated liabilities	80,700	22,550
	<hr/> <hr/>	<hr/> <hr/>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than held for trading investment, cash and cash equivalents and other assets for corporate use including certain plant and equipment, deposits and other receivables; and
- all liabilities are allocated to operating segments other than promissory note, bank borrowings, income tax payable, deferred tax liabilities, obligations under finance lease and certain other payables.

4. OTHER OPERATING INCOME

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Management fee income	360	360
Net foreign exchange gain	–	61
Interest income	65	109
Dividend income	87	96
Sundry income	174	314
Gain on disposal of plant and equipment	3	–
Written-back of other payables	851	–
	<hr/>	<hr/>
	1,540	940
	<hr/> <hr/>	<hr/> <hr/>

5. FINANCE COSTS

	Six months ended 30 September	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Interest expenses on:		
— Bank borrowings wholly repayable within five years	75	90
— Obligations under finance lease	106	116
	<hr/>	<hr/>
Total finance costs	181	206
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6. INCOME TAX EXPENSE

	Six months ended 30 September	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Current tax		
— Hong Kong Profits Tax	492	318
— PRC Enterprises Income Tax	—	181
	<hr/>	<hr/>
	492	499
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

7. (LOSS) PROFIT FOR THE PERIOD

(Loss) Profit for the period has been arrived at after charging:

	Six months ended 30 September	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Total staff costs (including directors' emoluments)	27,740	18,772
Amortisation of prepaid lease payment	36	108
Depreciation for plant and equipment	2,375	2,275
Loss on disposal of plant and equipment	—	67
Operating lease rental on land and buildings	758	889
	<hr/>	<hr/>
	758	889
	<hr/> <hr/>	<hr/> <hr/>

8. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share is computed based on the following data:

	Six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
(Loss) Profit for the period attributable to owners of the Company (<i>HK\$'000</i>)	<u>(31,880)</u>	<u>2,027</u>
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	<u>1,806,276,535</u>	<u>1,362,373,912</u>

The computation of diluted loss per share does not assume the conversion of the Company's outstanding share option since their exercise would result in a decrease in loss per share from continuing operation.

9. INTERIM DIVIDEND

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

10. MOVEMENT IN PLANT AND EQUIPMENT

During the current interim period, the Group paid approximately HK\$5,636,000 (2013: HK\$379,000) for acquisition of plant and equipment.

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of HK\$211,000 for cash proceeds of HK\$214,000, resulting in a gain on disposal of HK\$3,000 (2013: Loss on disposal: HK\$67,000).

11. MOVEMENT IN INVESTMENT PROPERTIES AND ASSET HELD FOR SALE

During the current interim period, the Group has entered into sale and purchase agreements with independent third parties to dispose of an investment property, of which the carrying value was approximately HK\$13,000,000 as at 31 March 2014. A loss on change in fair value of investment property of approximately HK\$392,000 is recognised in the current interim period by reference to the difference between the carrying value as at 31 March 2014 and the aggregate consideration of HK\$12,608,000 pursuant to the sale and purchase agreements.

The carrying amount of such asset is reclassified to asset held for sale. The disposal has been completed in November 2014.

The directors have considered that the fair value of the remaining investment property of the Group does not have significant change from its carrying amount of approximately HK\$12,600,000 as at 31 March 2014 and accordingly, no fair value change has been recognised in respect of this investment property in profit or loss in the current interim period (2013: Nil).

12. GOODWILL

	<i>HK\$'000</i>
COST	
At 31 March 2013 and 2014 (Audited) and 30 September 2014 (Unaudited)	84,054
IMPAIRMENT	
At 1 April 2013 (Audited)	–
Impairment loss recognised in the year	36,393
At 31 March 2014 (Audited) and 1 April 2014	36,393
Impairment loss recognised in the period	9,000
At 30 September 2014 (Unaudited)	45,393
CARRYING VALUES	
At 30 September 2014 (Unaudited)	38,661
At 31 March 2014 (Audited)	47,661

For the purposes of impairment testing, goodwill has been allocated to an individual cash generating unit (“CGU”), being the subsidiaries operating in paper business segment.

The Group conducted impairment review on goodwill attributable to the paper business segment at the end of the reporting period by reference to the estimated recoverable amounts. The recoverable amount of the paper business segment has been determined based on a value-in-use calculation and determined that impairment loss recognised in respect of the CGU of approximately HK\$9,000,000 during the period ended 30 September 2014 (2013: nil) due to the unfavorable performance of the industry. The recoverable amount of the CGU, determined by using value in use, was approximately HK\$85,294,000. Accordingly, the excess of the carrying amount of the assets and liabilities, including goodwill of the CGU over the recoverable amount recognising as an impairment loss, amounted to approximately HK\$9,000,000.

That calculation used cash flow projections based on financial budgets approved by the directors of the Company covering a five-year period, with discount rate of 9.41% (at 31 March 2014: 10.04%). The cash flows beyond the five-year period were extrapolated using a steady growth rate of 4% (at 31 March 2014: 4%). The growth rate was based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry. The key assumptions for the value-in-use calculation related to the estimation of cash flows included gross margin and discount rate. Gross margin represents budgeted gross margin, which is based on past performance and the management’s expectation for the market development. The discount rate used is pre-tax rates that reflect current market assessments of the risks specific to the relevant industry. Management believed that any reasonably possible change in any of these assumptions would not cause the aggregate carrying values of paper business segment to exceed its aggregate recoverable amount.

An impairment loss was recognised during the period because the revenue and profit margins of the CGU had been lower than expected. Any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

13. TRADE RECEIVABLES, DEPOSITS AND OTHER RECEIVABLES

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
Trade receivables	15,139	12,114
Deposits and other receivables	1,444	639
Prepayments	107	254
	<u>16,690</u>	<u>13,007</u>

The Group allows an average credit period of 30 to 60 days to its trade customers. The Group did not hold any collateral over these balances.

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximated the revenue recognition date, net of allowance for doubtful debts:

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
0–30 days	9,148	7,034
31–60 days	3,693	1,584
61–90 days	1,778	3,184
91–120 days	196	288
121–365 days	324	24
	<u>15,139</u>	<u>12,114</u>

At 30 September 2014, balance included in trade receivables of approximately HK\$4,948,000 (31 March 2014: HK\$1,840,000) is due to New Spring Label Printing and Packaging Limited, a related Company in which a director of the Company has beneficial interest. The amount is unsecured, non-interest bearing, and trading in nature with credit period of 60 days.

14. TRADE AND OTHER PAYABLES

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
Trade payables	14,722	8,044
Other payables and accruals	40,706	5,438
Deposit received from customers	15,555	270
Receipt in advance	1,348	–
	<u>72,331</u>	<u>13,752</u>

As at 30 September 2014, included in other payables and accruals is an amount of approximately HK\$20,000,000 which is payable to Kuang-Chi Innovative Technology Limited, an intermediate holding company, for the research and development of a civil near space flying apparatus pursuant to an outsourcing technology development agreement (the “OTDA”). The balance is unsecured, interest-free, and repayable on demand. Details of the OTDA is disclosed in the circular of the Company dated 29 July 2014.

As at 30 September 2014, included in other payables and accruals is an amount of approximately HK\$11,787,000 which is due to Reorient Financial Markets Limited, in which a director of the Company is a key management personnel and has beneficial interests, in relation to the professional services performed for the subscription which was completed on 22 August 2014. The balance is unsecured, interest-free, and repayable on demand.

As at 30 September 2014, included in deposit received from customers is an amount of approximately HK\$15,503,000 which was received from a customer in the novel space services segment as a consultation fee. The deposit will be recognised as revenue according to the stage of completion of the consultation.

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

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
Within 30 days	3,524	2,074
31–60 days	3,600	865
61–90 days	2,670	1,046
Over 90 days	4,928	4,059
	<u>14,722</u>	<u>8,044</u>

The average credit period on purchases of goods is 30 to 90 days. The Group had financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

15. SHARE CAPITAL

	Ordinary Shares of HK\$0.01 each		Preferred Shares of HK\$0.01 each	
	Number of shares	Share Capital HK\$'000	Number of shares	Share Capital HK\$'000
Authorised:				
At 1 April 2014	10,000,000,000	100,000	–	–
Reclassification (<i>note (a)</i>)	<u>(2,683,333,332)</u>	<u>(26,833)</u>	<u>2,683,333,332</u>	<u>26,833</u>
At 30 September 2014	<u>7,316,666,668</u>	<u>73,167</u>	<u>2,683,333,332</u>	<u>26,833</u>

	Ordinary Shares of HK\$0.01 each	
	Number of shares	Share Capital HK\$'000
Issued and fully paid:		
At 1 April 2013 (audited)	1,207,921,125	12,079
Placing of shares (<i>note (b)</i>)	<u>241,580,000</u>	<u>2,416</u>
At 30 September 2013 (unaudited)	<u>1,449,501,125</u>	<u>14,495</u>
At 1 April 2014 (audited)	1,449,501,125	14,495
Subscription of shares (<i>note (a)</i>)	1,666,666,668	16,667
Subscription of shares (<i>note (c)</i>)	<u>289,900,000</u>	<u>2,899</u>
At 30 September 2014 (unaudited)	<u><u>3,406,067,793</u></u>	<u><u>34,061</u></u>
	Preferred Shares of HK\$0.01 each	
	Number of shares	Share Capital HK\$'000
Issued and partially paid:		
At 1 April 2014	–	–
Subscription of shares (<i>note (a)</i>)	<u>2,683,333,332</u>	<u>10,733</u>
At 30 September 2014 (unaudited)	<u><u>2,683,333,332</u></u>	<u><u>10,733</u></u>

Notes:

- (a) On 29 May 2014, the Company and certain subscribers (“Subscribers”) entered into a subscription agreement (“Subscription Agreement”), pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 4,350,000,000 subscription shares (“Subscription Share(s)”), comprising 1,666,666,668 new ordinary shares and 2,683,333,332 new preferred shares (“Preferred Shares”) at an issue price of HK\$0.08 per Subscription Share. The aggregate gross subscription price amounts to approximately HK\$348,000,000. The subscription was completed on 22 August 2014 pursuant to the specific mandate obtained at the special general meeting of the Company held on 21 August 2014 and according to the terms of the Subscription Agreement, 1,666,666,668 new ordinary shares have been duly allotted and issued as fully paid and 2,683,333,332 Preferred Shares have been duly allotted and issued as partially paid at HK\$0.004 per each of the Preferred Shares. The gross proceeds received up to 30 September 2014 was approximately HK\$144,067,000.

As one of the conditions precedent to the Subscription Agreement, the Company has reclassified and redesignated the existing shares of the Company of HK\$0.01 each in the authorised share capital of the Company into 7,316,666,668 ordinary shares of HK\$0.01 each and 2,683,333,332 preferred shares of HK\$0.01 each.

- (b) On 13 May 2013, the Company entered into a placing agreement with a placing agent pursuant to which the Company has conditionally agreed to place aggregate maximum of 241,580,000 placing shares at the placing price of HK\$0.1 per share to not fewer than six places who and whose ultimate beneficial owners will not be connected persons of the Company and its connected persons. The placing of shares was completed on 5 June 2013.
- (c) On 12 September 2014, 14 September 2014 and 15 September 2014, the Company entered into subscription agreements pursuant to which the Company has conditionally agreed to allot and issue aggregate 289,900,000 ordinary shares at the subscription price of HK\$5.386 per share. The 26 subscribers who and whose ultimate beneficial owners will not be connected persons of the Company and its connected persons. The subscription of ordinary shares was completed on 29 September 2014. The gross proceeds received in respect of this subscription was approximately HK\$1,561,401,000.

All the new ordinary shares issued during the periods ended 30 September 2014 and 2013 ranked pari passu with the existing shares in all respects.

16. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 31 July 2012, a share option scheme (the “Scheme”) was adopted by the Company. The purpose of the Share Option Scheme is to enable the Company to provide incentive to participants in recognition of their contribution to the Group. The directors of the Company may offer to grant any employee or director of the Company or any adviser, consultant, agent, contractor, customers and supplier of any member of the Group or whom the Board in its sole discretion considers eligible for the scheme on the basis of his or her contribution to the Group.

On 26 August 2014, a total of 67,747,000 share options under the Share Option Scheme were granted. These share options have an exercise price of HK\$5.386 per share and an exercisable period ranging from 26 August 2015 to 25 August 2019. Of the total 67,747,000 share options, 24,900,000 share options were granted executive directors of the Company, and 42,847,000 share options were granted to certain employees of the Group.

The fair value of the 67,747,000 share options granted was approximately HK\$112,603,000, of which the Group recognised a share based payment expense of HK\$5,093,000 during the current interim period (2013: Nil). The share options grant on 26 August 2014 were estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model:

Share price at the date of grant (<i>HK\$</i>)	5.15
Exercise price (<i>HK\$</i>)	5.386
Expected volatility	42.49%
Risk-free interest rate (%)	1.259%
Exercise multiple	2.2–2.8%

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

Number of options	Exercise price <i>HK\$ per share</i>	Exercise period
22,356,510	5.386	26 August 2015 to 25 August 2019
22,356,510	5.386	26 August 2016 to 25 August 2019
23,033,980	5.386	26 August 2017 to 25 August 2019
<u>67,747,000</u>		

17. DISPOSAL OF SUBSIDIARIES

On 26 June 2014, the Group has disposed the land use right in Huizhou City through the disposal of entire issued capital of Miracle True Investment Limited and its subsidiary (“Miracle True Group”) to an independent third party. The net assets of Miracle True Group at the date of disposal were as follows:

Analysis of assets and liabilities over which control was lost:

	At 26 June 2014 HK\$'000
Prepaid lease payment (<i>note</i>)	8,913
Bank balances and cash	<u>22</u>
Net assets disposed of	<u>8,935</u>
Gain on disposal of a subsidiary:	
Consideration received	12,023
Net assets disposed	(8,935)
Cumulative exchange differences in respect of the net assets of subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary	<u>215</u>
Gain on disposal	<u>3,303</u>
Net Cash inflow arising on disposal:	
Cash consideration	12,023
Less: bank balances and cash disposed of	<u>(22)</u>
	<u><u>12,001</u></u>

Note:

At 31 March 2014, the carrying amount of the prepaid lease payment was approximately HK\$8,949,000, represented by approximately HK\$8,733,000 in the non-current assets and approximately HK\$216,000 in the current assets of the Group.

18. CAPITAL COMMITMENTS

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<u><u>5,520</u></u>	<u><u>–</u></u>

19. EVENT AFTER THE REPORTING PERIOD

During the period, the Group has entered into sales and purchase agreements with independent third parties to dispose of an investment property, which was acquired by the Group in July 2012, at an aggregate consideration of approximately HK\$12,608,000. The disposal has been completed in November 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Review and Prospects

During the period ended 30 September 2014, the Group has been principally engaged in the novel space services and other innovative technology business, the manufacture and trading of paper packaging products and paper gift items and the printing of paper promotional materials (“Paper Business”) and the property investment segment.

For the period ended 30 September 2014, the Group recorded a turnover of approximately HK\$45,303,000 (2013: HK\$60,231,000) and the Group’s loss attributable to owners was approximately HK\$31,880,000 (2013: profit attributable to owners of approximately HK\$2,027,000). The significant loss was mainly caused by the recognition of research expenses incurred, the drop of the operating profit from the Paper Business and the impairment of goodwill for the Paper Business.

The Novel Space Services and other Innovative Technology Business

During the period, the Group has newly established the novel space services and other innovative technology business segment (“Novel Space Services Segment”). The Group applies the technology developed in respect of the civil near space flying apparatus to provide various novel space services, including but not limited to telecommunication, mineral exploration, meteorological observations and surveillance, space tourism and disaster detection, etc. On 22 August 2014, the Group has entered into the Outsourcing Technology Development Agreement (“OTDA”), pursuant to which, the Group appointed Kuang-Chi Innovative Technology Limited, an intermediate holding company since the completion of the subscription 22 August 2014, as developer to research and develop a civil near space flying apparatus with a volume of not less than 10,000 cubic metre, which shall be equipped with communication facilities to be used in the range from ground level to near space and shall be able to fly at no less than 20 kilometres above sea level.

Pursuant to the OTDA, the total contract sum is approximately HK\$55,000,000, the testing and delivery of the flying apparatus is to be completed by 31 December 2014 and an amount equivalent to HK\$20,000,000 was payable upon signing of the OTDA. The management considered the research and development of the flying apparatus as at 30 September 2014 was still in the research phases. According to appropriate accounting standard, approximately HK\$20,000,000 was recognized as research expenses for the period ended 30 September 2014. The management expects that civil near space flying apparatus will be delivered as agreed timeline.

On 11 September 2014, the Group and Pengxin International Mining Company Limited (“Pengxin”) entered into cooperation agreements. According to the cooperation agreements, the Group will provide consultation services to Pengxin on various novel space services and other innovative technology solutions in the Democratic Republic of the Congo. Since substantial portion of the consultation works and its direct related costs will be incurred after

30 September 2014, the consultation fee received, included in the deposits received from customers, of RMB12,289,000 (equivalent to HK\$15,503,000) and its direct related costs would be recognised as revenue and expenses respectively after the period ended 30 September 2014 according to the stage of completion of the consultation. During the interim period, the Company has granted share options to relevant staff including directors under this segment, the relevant share-based payment expenses for the current interim period is approximately HK\$5,093,000. As a result, net expenses of approximately HK\$25,093,000 was incurred in this segment.

Subsequently in November, after meetings with the president of the Democratic Republic of the Congo, the Group and Pengxin entered into a cooperation agreement with the government of the Democratic Republic of the Congo (the “Congo Government”), pursuant to which, the Congo Government will provide with the supports and resources to the Group and Pengxin for the provision of the novel space services and solutions in the Democratic Republic of the Congo. Furthermore, witnessed by the president of the PRC and the prime minister of New Zealand, the Group and Pengxin have also entered in to a memorandum of understanding with Airways Corporation of New Zealand Limited for the test launch of the near space flying apparatus and the provision of consultations in New Zealand.

Other than the above mentioned, the Group has entered into other cooperation agreements with the Weather Department of Shenzhen City for the cooperation on metrological projects for five years and with the Shanghai Institute of Space Systems Engineering of China Aerospace Science and Technology Corporation for the cooperation on near space manned spaceflight and space travel projects for five years.

The management believes that the establishment of the business relationships with the above parties represented great opportunities to demonstrate the technical feasibility and competence of the Group and to commercialize the novel space services segment to broaden the revenue base of the Group. The Group committed to develop the novel space technology for space flying at different altitudes since September this year, launching certain disruptive innovations and external collaboration. The Group will further put forward the progress of both the disruptive innovations and marketing activities, so as to set up its strategic position in the innovative industry and global markets.

Paper Business

For the period ended 30 September 2014, the turnover contributed by the Paper Business decreased by approximately 25% to approximately HK\$44,895,000 (2013: HK\$59,854,000) which was due to the weakening global demand and fierce competition in the printing and packaging industry. With the increase in labour and other production costs, the segment results from the Paper Business has dropped, The directors are of the view that the estimated sales orders has dropped and the profit margins of the products were deteriorating comparing with what the directors previously expected, the Group has revised its cash flow forecast for the Paper Business cash-generating unit (“CGU”).

With reference to the valuation reports issued by an independent external valuer, the directors have made a further impairment loss of HK\$9,000,000 (for the year ended 31 March 2014: HK\$36,393,000) in respect of the carrying amount of the goodwill, which was arising from the acquisition of the Paper Business during the year ended 31 March 2013. As a result, the segment loss before finance costs and relevant tax expenses of approximately HK\$7,159,000 was recorded (2013: segment profit of HK\$3,479,000).

For the first half of year 2014, the Group has experienced a downturn of the paper and packaging industry in terms of delays in placement of orders received and even decrease in order quantity. Although there is slow recovery in some of the regions, e.g. U.S.A., the world economy still faces a prolonged period of sluggish growth. The Euro zone is still suffering from high unemployment rate and low inflation as well as the expectation of a slower growth in China over the medium term than in the recent past. Management expects the printing and packaging industry will most likely remain weak and unpredictable during the ensuing year. Despite the difficulties in the current operating environment for the Paper Business, the Group will continue to improve the efficiency and output quality, maintain good relationships with existing customers and at the same time will promote its products and services to new customers to broaden its customer base.

Property Investment

The Group holds the properties for investment purpose with a view that it can establish an additional stream of recurring rental income, while capture any possible future capital appreciation. For the period ended 30 September 2014, leasing income of approximately HK\$408,000 (2013: HK\$377,000) was recognised. During the period, the Group has entered into sales and purchase agreements with independent third parties to dispose an investment property. A loss on change in fair value of investment property of approximately HK\$392,000 is recognised in the current interim period by reference to the difference between the carrying value of approximately HK\$13,000,000 as at 31 March 2014 and the aggregate consideration of approximately HK\$12,608,000 pursuant to the sale and purchase agreements. As a result, a segment profit of approximately HK\$16,000 incurred (2013: HK\$377,000). The disposal was completed in November 2014.

The Group will closely monitor the conditions of the property market and prepare to respond swiftly and take advantage of the market adversities to seize upon further suitable investment opportunities to provide tremendous value to shareholders.

Other Results

On 26 June 2014, the Group has disposed the land use right in Huizhou City through the disposal of entire issued capital of Miracle True Investment Limited to an independent third party, the gain on disposal of assets through disposal of a subsidiary was approximately HK\$3,303,000.

Capital Structure

On 29 May 2014, the Company and New Horizon Wireless Technology Limited and other investors entered into a subscription agreement (“Subscription Agreement”), pursuant to which the Company has conditionally agreed to allot and issue, a total of 4,350,000,000 subscription shares, comprising 1,666,666,668 new ordinary shares and 2,683,333,332 new preferred shares at an issue price of HK\$0.08 per Subscription Share. The aggregate gross subscription price amounts to approximately HK\$348,000,000. The total net proceeds is approximately HK\$327,000,000, of which net proceeds of approximately HK\$123,000,000 have been received and the remaining net proceeds of approximately HK\$204,000,000 are receivable according to the terms and conditions set out in the Subscription Agreement.

On 12 September 2014, 14 September 2014 and 15 September 2014, the Company entered into subscription agreements pursuant to which the Company has conditionally agreed to allot and issue aggregate 289,900,000 ordinary shares at the subscription price of HK\$5.386 per share. The 26 subscribers who and whose ultimate beneficial owners will not be connected persons of the Company and its connected persons. The subscription of ordinary shares was completed on 29 September 2014 and the net proceeds received in respect of this subscription were approximately HK\$1,561,401,000.

The use of proceeds are intended to be applied as payments for the OTDA for HK\$55,000,000, acquisition of land site and construction of manufacturing facilities and expansion of production capacity for HK\$1,090,000,000, use for research and development expenses for the Novel Space Services Segment for HK\$535,000,000 and to fund future expansion of the Group’s businesses and for general working capital for HK\$208,000,000, respectively.

As at 30 September 2014, approximately HK\$5,536,000 was paid for the construction of manufacturing facilities. The management expects the remaining balance of the proceeds will be used as intended.

Interim Dividend

The Board resolved not to declare an interim dividend for the six months ended 30 September 2014 (2013: Nil).

Liquidity and Financial Resources

As at 30 September 2014, the total shareholders’ funds of the Group amounted to approximately HK\$1,823,748,000 (31 March 2014: HK\$167,165,000), the total assets of approximately HK\$1,904,448,000 (31 March 2014: HK\$189,715,000) and the total liabilities of approximately HK\$80,700,000 (31 March 2014: HK\$22,550,000).

As at 30 September 2014, the Group had cash and cash equivalents of approximately HK\$1,772,854,000 (31 March 2014: HK\$44,324,000). The gearing ratio as of 30 September 2014, defined as the percentage of the total interest bearing debt, including bank borrowings of approximately HK\$5,666,000 (31 March 2014: HK\$5,754,000) and obligations under finance leases of approximately HK\$1,983,000 (31 March 2014: HK\$2,683,000), to net asset value, was approximately 0.42% (31 March 2014: 5.05%).

The Group's business operations and investments are in Hong Kong and Mainland China. Cash and cash equivalents as at 30 September 2014 denominated in local currency and foreign currencies mainly included HK\$1,720,070,000, RMB13,346,000 and USD4,635,000 respectively. All the outstanding balances of borrowings and obligations under finance leases are denominated in HKD. Other than described above, most of the assets, liabilities and transactions of the Group are primarily denominated in HKD and RMB. The Group has not entered into any instruments on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

Investment Position and Planning

At 31 March 2014, the Group held shares which are trade on the Stock Exchange of Hong Kong with fair value of approximately HK\$4,260,000. During the period, the Group has disposed the shares and a gain on changes in fair value of the investment of approximately HK\$864,000 (2013: HK\$267,000) was recognised.

Saved as disclosed above and disclosed in section Other Results under Performance Review and Prospects of this announcement, the Group did not have any other significant investment and there are no other material acquisition or disposal of subsidiaries and associated company during the period.

Charges on the Group's Assets and Contingent Liabilities

As at 30 September 2014, certain assets of the Group were pledged to secure banking facilities granted to the Group and obligation under finance lease as follows:

	30 September 2014 <i>HK\$'000</i>	31 March 2014 <i>HK\$'000</i>
Investment properties	12,608	13,000
Plant and equipment under finance lease	6,730	6,953
	19,338	19,953

As at 30 September 2014, the Group had no significant contingent liabilities (31 March 2014: Nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 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") during the period under review, save for the deviations from code provisions A.2.1, A.4.1 and A.6.7 which are explained in the relevant paragraphs below. The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of "Chairman" before the appointment of Dr. Liu Ruopeng as the Chairman of the Company on 26 August 2014. The Board has also appointed Dr. Zhang Yangyang as the chief executive officer as on 26 August 2014. After the aforesaid appointments, the Company has complied with the code of provision A.2.1.

Under the code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. From the period 1 April 2014 to 23 August 2014, one non-executive director of the Company, Mr. Wong Hung Ki, was not appointed for specific terms but he is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws of the Company. However, Mr. Wong Hung Ki resigned as the non-executive director on 23 August 2014, after his resignation, all the non-executive directors (including independent non-executive directors) of Company are appointed for a specific term and subject to re-election, the Company has complied with the code of provision A.4.1.

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, following specific enquiry by the Company, that they had complied with the required standard set out in the Model Code throughout the period.

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 September 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Review of Interim Results

The audit committee has reviewed with the management the appropriateness and consistent application of significant accounting principles and policies adopted by the Group, and discussed judgement issues, accounting estimates, adequacy of disclosures and internal consistency of the interim financial statements for the six months ended 30 September 2014.

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

Hong Kong, 26 November 2014

As at the date of this announcement, the Board comprises five executive Directors, namely Dr. Liu Ruopeng, Dr. Luan Lin, Dr. Zhang Yangyang, Mr. Ko Chun Shun, Johnson and Mr. Ng Man Chan; and three independent non-executive Directors, namely Dr. Liu Jun, Dr. Wong Kai Kit and Mr. Lau Man Tak.