KuangChi Science Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)

INTERIM REPORT

2015

KuangChi Science Expanding man's living space

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Liu Ruopeng *(Chairman)*
Dr. Zhang Yangyang *(Chief Executive Officer)*
Dr. Luan Lin *(Chief Technology Officer)*
Mr. Ko Chun Shun, Johnson

Independent Non-executive Directors

Mr. Lau Man Tak
Dr. Liu Jun
Dr. Wong Kai Kit

AUDIT COMMITTEE

Mr. Lau Man Tak *(Chairman)*
Dr. Liu Jun
Dr. Wong Kai Kit

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Chan Ming Kei

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Clarendon House
2 Church Street, Hamilton HM11
Bermuda

HEAD OFFICE IN HONG KONG

Unit 515-518. 5/F. Building 16W,
No. 16 Science Park West Avenue,
Hong Kong Science Park,
Pak Shek Kok,
New Territories,
Hong Kong

General: (852) 2292 3900
Investor relation: (852) 2292 3921
Fax: (852) 2292 3999

HEAD OFFICE IN SHENZHEN

2/F, Software Building
No. 9 Gaoxin Zhong 1 st Road
Nanshan District, Shenzhen
Guangdong Province, PRC
Postal code: 518057

Email: info@kuang-chi.com
Website: www.kuangchiscience.com

Tel: (86) 0755 8664 9703
Fax: (86) 0755 8664 9700

CORPORATE INFORMATION

REGISTRARS

Hong Kong

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

Bermuda

Codan Services Limited
2 Church Street, Hamilton HM 11
Bermuda

PRINCIPAL BANKERS

Bank of Communications Company Limited
Shanghai Pudong Development Bank Co., Ltd.
Standard Chartered Bank (Hong Kong) Limited

STOCK CODE

439

MANAGEMENT DISCUSSION AND ANALYSIS

ACCOUNTING PERIOD UNDER REVIEW

The financial year end date of the Company has been changed to 31 December of each year in order to align with the financial year end date of its subsidiaries incorporated in the PRC, therefore, the financial period end date of the period under review was 30 June 2015 and the results of the Group contained in the condensed consolidated financial statements covered the results for six months period from 1 January 2015 to 30 June 2015 (the "Period"). The corresponding comparative amounts for the results covered a six-months period from 1 January 2014 to 30 June 2014 (the "Comparative Period") were used for discussion purpose under this section.

PERFORMANCE REVIEW AND PROSPECTS

The Group is principally engaged in i) the novel space services and other innovative technology business ("Novel Space Business"); ii) the manufacture and trading of paper packaging products and paper gift items and the printing of paper promotional materials ("Paper Business"); and iii) the property investment segment. The Group recorded a turnover of approximately HK$55,537,000 (Comparative Period: HK$35,963,000) and the Group's loss attributable to shareholders of the Company was approximately HK$65,094,000 (Comparative Period: HK$22,134,000).

Novel Space Business

The Group applies civil flying apparatus to provide various novel space services and products combined with metamaterial technologies for wide-area networking, intelligent observations, transportation construction and transportation, maritime communications, backbone communications, private communications, meteorological observations and space tourism, etc. During the Period, consultancy fee income arising from the Novel Space Business was approximately HK$20,141,000. The Group has incurred approximately HK$5,327,000 and approximately HK$8,288,000 for selling and marketing expenses and research and development expenses for the novel space products respectively. Staff costs in the Novel Space Business included in the administrative expenses was approximately HK$20,800,000. Altogether with other operating costs, the segment loss for the Period was approximately HK$23,000,000. Since the Novel Space Business was established in the second half year of 2014, no comparative information of the Comparative Period was available.

MANAGEMENT DISCUSSION AND ANALYSIS

Development of our disruptive novel space technologies

The Group is devoted to the research and development of novel space technologies and products. In February 2015, the Group has successfully conducted a test launch and related commercial testing of the Cloud in the KuangChi Apollo Base located in Longgang District of Shenzhen. The tasks of the launch included testing of WiFi communication coverage, ground monitoring and collection of maritime big-data of the Cloud. These three core functions showed their actual results as expected and the feasibility of the technology was proven by the launch. The Cloud marks a new era in service provision to ports which includes monitoring, management and operation of coastal vessels. It is also suitable to provide wireless internet and data transmission services for areas with very low population density or investment sensitivity. After the launch, the Group has started to build the Cloud products. As at 30 June 2015, the relevant costs incurred in building the Cloud products were approximately HK$20,361,000 and were included in inventories in work-in-progress status since the Cloud products were still under construction, assembling and mechanical modifications processes. The specifications of the Cloud products can be tailor-made to fulfill the application needs as required by our customers.

In June 2015, the Traveller, the near space flying apparatus developed and manufactured by the Group, successfully took off and completed the related commercial testing in Ashburton of New Zealand. The Traveller carried equipment with weight of approximately 300 kilograms. The Traveller reached the designated flying altitude of 21 kilometres above sea level in about an hour after its took off and finished the tests on the automatic identification system in the near space, both of the air to ground and air to air signal monitoring, the space environmental exploration, the air-ground high speed communications test and other commercial applications. The test flight proved the controllability to the near space flying apparatus and marked China's near space exploration technology ranking among the highest in the world.

MANAGEMENT DISCUSSION AND ANALYSIS

Global acquisitions and integrations

The Group implemented a comprehensive strategic layout for its development in the novel space industry and integration with top-notch companies in upstream and downstream sectors. During the Period, the Group has made two significant acquisitions. In February 2015, the Group acquired for approximately 22.83% of the issued share capital of Martin Aircraft Company Limited ("MACL") and became the largest shareholder of MACL. MACL is a company listed on the Australian Securities Exchange and is a company focuses on the development and commercialisation of the Martin Jetpacks. The Group continues its strategic integration in the novel space industry and commit to the integration of the Group's core technologies with the Martin Jetpacks and provides strategic technology improvement to the Martin Jetpacks. The Group has also acquired the right to subscribe the convertible securities in MACL and the share swap arrangement with MACL. The Group will hold approximately 52% of the enlarged share capital in MACL upon the exercise of the conversion and share swap arrangement.

On 3 April 2015, the Group and Solar Ship Inc. ("Solar Ship") entered into an investment agreement for the subscription up to approximately 54.42% of the outstanding common shares of Solar Ship by stages. In May 2015, the Group has subscribed for approximately 32.58% of the enlarged share capital of Solar Ship and acquired an option to further subscribe the share capital of Solar Ship to approximately 54.42% of the then enlarged share capital of Solar Ship. Solar Ship is developing a transport platform, namely Solarship, by applying the solar electric hybrid aircraft design for low cost air-transport and the self-reliant building technology for deploying from the Solarship for remote area camps which is powered by solar energy, wind energy and hydrogen energy. Solar Ship intends to develop this self-reliant platform with functions including transportation, generating electricity and communication function with an initial focus on markets including Canada, China, Africa, Australia, Caribbean, etc. The Group's technologies and expertise could make the transport platform of Solarship become lighter, stronger and realize the use of less porous materials and a comprehensive enhancement to the energy management systems of Solarship. The Group will collaborate with Solar Ship to develop the transport platform, remote area camps and communication technology with the aim at penetrating the global markets.

MANAGEMENT DISCUSSION AND ANALYSIS

Other developments in Novel Space Business

After the acquisition of MACL, at the 51st Paris Air Show, the Group has entered into two alliance agreements for the provision of sales and marketing, operational and after sales support for both the first responder and personal jetpack sectors in both Indian and European markets. The Group also signed two strategic co-operation framework agreements with Beijing Flying Man Science & Technology Limited ("Beijing Flying Man") and Beijing Voyage Investment Limited ("Beijing Voyage"), respectively, which involve the parties working towards the future delivery of a package with an initial tranche of manned jetpacks, unmanned jetpacks, static models and simulators. It will also include initial training services and after sales support services to be provided by the Group.

During the Period, the Group entered into a strategic cooperative agreement with Parakou Shipping Limited ("Parakou Shipping") for upgrading the marine applications of the Cloud space technology and establishing partnership for its future application to marine businesses. Pursuant to the cooperative agreement, the Group shall provide solutions and other technical support of the Cloud space technology, and develop technical solution of applications for Parakou Shipping. On the other hand, Parakou Shipping shall leverage its extensive operational experience in marine sector to identify cooperation partners and customers for the application of the Group's technologies.

The Group also entered into a strategic cooperative framework agreement with Dr. Peng Telecom & Media Group Co., Ltd. (鵬博士電信傳媒集團股份有限公司) ("Dr. Peng") regarding the information, networking and intelligence services. Pursuant to the agreement, the Group shall be responsible for the provision of near space technologies, the product solutions of the Cloud and the Traveller and other technical supports for the purposes of the establishment of innovative technology platform and wireless communication platform as well as the cooperation in the service of over-the-top (OTT) jointly with Dr. Peng. To expedite the business development of the Group, both parties shall introduce its own quality resources and expertise into their cooperation for the application of communication system in river and seaborne transportation, and for the extensive market expansion of communication services in the rail transit sector and big-data services.

The management believes that the Group has made significant breakthrough and development in i) the research and development of novel space technologies and products; ii) implementation of a strategic plan for the development in the novel space industry; iii) integration with top-notch companies in upstream and downstream sectors; and iv) strategic cooperation in the industry and thus, laid a solid foundation for the revenue base to the Novel Space Business. Looking forward, the Group will continue to focus on the development of novel space technology for space flying at different altitudes, enhance product performance and broaden business applications in the world so as to create a better way of living for all mankind.

MANAGEMENT DISCUSSION AND ANALYSIS

Paper Business

During the Period, the turnover contributed by the Paper Business was approximately HK$35,220,000 which decreased slightly from HK$35,296,000 of the Comparative Period. The Paper Business was still suffering from the weakening global demand and fierce competition in the printing and packaging industry. With the significant increase in labour cost during the Period as compared to the Comparative Period, the profit margin of the Paper Business continued to drop. The management is of the view that the estimated sales orders in the ensuring year will remain weak and the profit margins of the products would further deteriorate due to the increasing labour cost, the Group has revised its cash flow forecast for the Paper Business cash-generating unit ("CGU"). With reference to the cash flow forecast for the Paper Business CGU, the Group has further made an impairment loss of approximately HK$13,501,000 (Comparative Period: HK$20,485,000) in respect of the carrying amount of the goodwill which was arising from the acquisition of the Paper Business and also made an impairment loss of approximately HK$2,155,000 (Comparative Period: Nil) in respect of the carrying amount of plant and equipment in the Paper Business. As a result, the segment loss of approximately HK$26,849,000 was recorded (Comparative Period: HK$21,477,000).

Management expects the printing and packaging industry will most likely remain weak and unpredictable in the ensuring year. The management will continue to seek for more stringent cost control measures to improve the profitability level, including streamline and simplify the production process or outsource certain processes to sub-contractors. The Group will also 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 recurring rental income, while capture any possible future capital appreciation. During the Period, leasing income of approximately HK$176,000 (Comparative Period: HK$667,000) was recognised. The drop of the leasing income as compared to the Comparative Period was due to the disposal of one of the properties in the second half year of 2014. The segment profit of approximately HK$167,000 incurred (Comparative Period: HK$573,000). 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Unallocated Corporate Income, Expenses and Finance costs

During the Period, interest income earned from fixed deposits and pledged deposits was approximately HK$30,338,000 (Comparative Period: HK$364,000), while during the Comparative Period, 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.

During the Period, the unallocated corporate expenses of the Group has significantly increased from approximately HK$4,903,000 of the Comparative Period to approximately HK$49,202,000, the increase was mainly due to the i) legal and professional expenses, financial advisory expenses attributable to the acquisition activities for approximately HK$14,500,000 (Comparative Period: HK$75,000); ii) significant increase of total staff cost for general administrative purpose to HK$22,545,000 (Comparative Period: HK$1,835,000) which was mainly due to the allocation of the share-based payment expenses for share options granted to certain directors and employees as at 26 August 2014.

Finance costs for the Period amounts to HK$4,342,000 (Comparative Period: HK$194,000), the increase of which was mainly due to the increased borrowings of the Group during the Period.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2015 (2014: Nil).

CAPITAL STRUCTURE

On 29 May 2014, the Company and New Horizon Wireless Technology Limited ("New Horizon") and other investors ("Subscribers") 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 (including 1,341,666,666 Tranche A Preferred Shares and 1,341,666,666 Tranche B 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 was approximately HK$327,000,000, of which net proceeds of approximately HK$123,000,000 was received on 22 August 2014 (in respect of fully paid ordinary shares of the Company issued and partly paid preferred shares of the Company issued). Further HK$102,000,000 was received on 17 February 2015 in respect of the remaining balance of the Tranche A Preferred Shares. On 17 April 2015, the Company received notices from all of the Subscribers to convert all of their respective Tranche A Preferred Shares into 1,341,666,666 Ordinary Shares of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Subsequently on 22 August 2015, the Company received approximately HK$102,000,000 from the Subscribers and the Tranche B Preferred Shares were fully paid up. The Company was informed by the Subscribers that the Subscribers had no current intention to exercise the conversion right under any of the Tranche B Preferred Shares as at the date of this report.

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 year ended 31 December 2014 were approximately HK$1,888,401,000, of which approximately HK$204,000,000 had not been received and approximately HK$244,927,000 was utilised according to the intended use and the change of the intention as specified in the annual report of year 2014. As at 31 December 2014, approximately HK$1,439,474,000 was unutilised.

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

Intended use of proceeds	**Unutilised proceeds as at 1 January 2015**	**Utilised during the Period**	**Reclass**	**Unutilised proceeds as at 30 June 2015**
	HK$'000	HK$'000	HK$'000	HK$'000
Acquisition of land site and construction of manufacturing facilities and expansion of production capacity for the Novel Space Business	1,059,140	(81,149)	–	977,991
Research and development for products and expenses for the Novel Space Business	226,032	(8,288)	–	217,744
General working capital	197,892	(129,475)	–	68,417
Global merger and acquisition of novel space services industry and products	160,410	(106,085)	–	54,325
Less: Proceeds not yet received	(204,000)	102,000	–	(102,000)
	1,439,474	(222,997)	–	1,216,477

During the Period, approximately HK$324,997,000 was used as specified in the annual report of year 2014, and approximately HK$102,000,000 proceeds was received from the subscribers of the preferred A shares.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, the Group has paid approximately HK$81,149,000 to purchase additional plant and equipment for the Novel Space Business, approximately HK$8,288,000 on research and development costs and approximately HK$129,475,000 for general working capital including staff costs, legal fees and financial advisory fees in relation to global acquisitions, cost of building new inventories, repayment for other payables and prepayments for the Group's expenses. Approximately HK$106,085,000 was used to subscribe the share capital of Solar Ship.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2015, the total shareholders' funds of the Group amounted to approximately HK$1,746,995,000 (31 December 2014: HK$1,713,239,000), the total assets of approximately HK$2,358,500,000 (31 December 2014: HK$1,936,751,000) and the total liabilities of approximately HK$345,937,000 (31 December 2014: HK$218,510,000).

As at 30 June 2015, the Group had bank balances and cash of approximately HK$1,576,205,000 (31 December 2014: HK$1,485,818,000), and the Group had pledged deposits of approximately HK$299,592,000 (31 December 2014: HK$187,575,000). The gearing ratio as of 30 June 2015, defined as the percentage of the total interest bearing debt, including bank borrowings of approximately HK$282,397,000 (31 December 2014: HK$140,000,000), convertible debenture of approximately HK$7,501,000 (31 December 2014: Nil) and obligations under finance leases of approximately HK$916,000 (31 December 2014: HK$1,633,000), to net asset value, was approximately 14.45% (31 December 2014: 8.24%).

The Group's business operations and investments are in PRC, Hong Kong, New Zealand and Canada. Bank balances and cash as at 30 June 2015 denominated in local currency and foreign currencies mainly included HK$30,860,000, RMB1,277,139,000, USD5,402,000, New Zealand dollars ("NZD") 23,319,000, Canadian dollars ("CAD") 13,431,000 and AUD228,000 (31 December 2014: HK$11,824,000, RMB1,295,049,000 and USD5,501,000) 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, RMB, NZD and CAD. The Group has not entered into any instruments to hedge the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSAL

Acquisition of subsidiaries

During the Period, the Group has completed the acquisition of MACL and Solar Ship. As at 30 June 2015, the summary of the acquired companies is as follow:

Name of subsidiary	Principal activity	Place of incorporation/ registration/ operations	Class of shares held	Paid up issued share capital/ registered capital	Date of acquisition	Proportion of shares acquired	Consideration paid *HK$'000*	Proportion of ownership interest held by the Company Indirectly at 30 June 2015
MACL	Development and commercialisation of jetpack products	New Zealand	Ordinary shares	245,294,108	23 February 2015	22.83%	135,200	22.73%
Solar Ship	Development and commercialisation of solar powered aircrafts	Canada	Common shares	242,695	29 May 2015	32.58%	106,085	32.58%

Details of the acquisitions are disclosed in section of "Novel Space Business – Global acquisitions and integration" and in Note 19 to the condensed consolidated financial statements.

As at 30 June 2015, the Company held 22.73% and 32.58% of the issued share capital of MACL and Solar Ship respectively. Since the Company holds the conversion right containing potential voting rights for both acquisitions, upon exercising the conversion rights of these derivatives, the Company's shareholding in MACL and Solar Ship will be approximately 52% and 54.42% respectively. The management considers the Company has control over MACL and Solar Ship. As a result, the Group applied the acquisition method in accounting for the acquisition of MACL and Solar Ship. The results of MACL and Solar Ship from the respective acquisition date are consolidated to the Group's financial statements during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Subscription of Longsheng Share

On 25 March 2015, the Group and Zhejiang Longsheng Automotive Parts Stock Limited Corporation ("Longsheng") entered into a subscription agreement, pursuant to which Longsheng has conditionally agreed to issue, and the Group has conditionally agreed to subscribe 41,958,041 new shares of Longsheng ("Longsheng Shares") at a consideration of RMB300,000,000 (equivalent to approximately HK$374,490,000). The 41,958,041 new Longsheng Shares represent approximately 3.21% of the issued share capital of Longsheng as enlarged by the allotment and issuance of all new Longsheng Shares under this subscription. Longsheng will focus on the development of the smart structure and vehicle equipment in terms of intelligence, energy conservation and safety enhancement for the use in road transport and also the rail transit sector. The functions of these devices and equipment can be extended if they are connected to the internet and it enables the users to real time remote control the vehicles including the equipment installed in, perform traffic monitoring service and also provide big-data collection service and analysis. The Group focuses on disruptive spaces technology and services and has recently test-launched the Cloud which is able to provide Wi-Fi telecommunication, ground monitoring service and it can fly over remote areas. The Cloud can provide a practicable solution to allow the smart structure and vehicle equipment accessing the internet with minimum delay time to enable their online functions. The management considers that the smart structure and vehicle equipment business will complement the current business of the Group and provide an opportunity for the Group to further penetrate the potential customers in the auto parts industry in the PRC through any future possible cooperation between the Group and Longsheng.

On 16 June 2015, the Company received a letter from The Stock Exchange of Hong Kong Limited ("Stock Exchange") that the Stock Exchange exercised its discretion under Rule 14A.20 of the Rules Governing Listing of Securities on the Stock Exchange ("Listing Rules") to deem Longsheng as a connected person in respect of this subscription. So, the subscription constituted a connected transaction under Rule 14A.25 of the Listing Rules, and the Company was required to comply with the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules for the subscription. The special general meeting of the Company was held on 10 August 2015 and the Company has obtained the approval from the independent shareholders for the subscription of Longsheng Shares. As at the date of this report, the subscription is still conditional upon the approval by the China Securities Regulatory Commission.

Saved as disclosed above and disclosed herein this report, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGES ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2015, certain assets of the Group were pledged to secure banking facilities granted to the Group and obligation under finance lease as follows:

	30 June 2015 HK$'000	31 December 2014 HK$'000
Plant and equipment under finance lease	**4,341**	4,543
Pledged deposits	**299,592**	187,575
	303,933	192,118

As at 30 June 2015, the Group had no significant contingent liabilities (31 December 2014: Nil).

CAPITAL COMMITMENT

As at 30 June 2015, the Group has capital commitments as below:

	30 June 2015 HK$'000	31 December 2014 HK$'000
Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of the acquisition of:		
Plant and equipment	**11,350**	18,317
A company	**127,171**	190,380
	138,521	208,697

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2015, the Group had approximately 800 employees. The Group provides competitive remuneration packages to employees with share option scheme and attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

SHARE OPTION SCHEMES AND RESTRICTED SHARE AWARD SCHEME

Share Option Scheme of the Company

The Company maintains a share option scheme of the Company ("Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Detailed terms of the Share Option Scheme were disclosed in the 2014 Annual Report.

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

			Number of options				
	Original date of grant	Exercise price HK$	Balance as at 1 January 2015	Grant during the Period	Exercised during the Period [2]	Lapsed/ cancelled during the Period	Outstanding as at 30 June 2015
Name of Director							
Dr. Zhang Yangyang	26 August 2014	5.386	15,000,000	–	–	–	15,000,000
Dr. Luan Lin	26 August 2014	5.386	9,900,000	–	–	–	9,900,000
Aggregate total of employees							
Ms. Huang Weizi [1]	26 August 2014	5.386	3,000,000	–	–	–	3,000,000
Other employees	26 August 2014	5.386	39,847,000	–	–	–	39,847,000
			67,747,000	–	–	–	67,747,000
Exercisable			–				–
Weighted average exercise price			5.386				5.386

Notes:

(1) Ms. Huang Weizi is the spouse of Dr. Liu Ruopeng, an executive Director of the Company.

(2) Vesting of the share options is conditional upon the achievement of certain performance targets as set out in the respective offer letters. Commencing from the first, second and third anniversaries of the date of grant of the options, the relevant grantee may exercise up to 33%, 33% and 34% respectively of the options granted.

MANAGEMENT DISCUSSION AND ANALYSIS

Restricted Share Award Scheme

The Company maintains a restricted share award scheme ("RSA Scheme") to recognize and motivate the contribution of the participants and to provide them with a direct economic interest in attaining the long-term business objectives of the Company. Detailed terms of the RSA scheme were disclosed in the 2014 Annual Report.

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

Share Option Schemes in MACL

On 23 February 2015, the Group has completed the acquisition of MACL. As at 23 February 2015, MACL has in aggregate 9,206,670 outstanding share options granted under the Company Option Scheme of MACL and the New Company Option Scheme of MACL approved by the board of MACL in 2008 and 2014 respectively ("MACL Option Schemes").

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

The directors of MACL may offer to grant any employees or directors of MACL or whom the board of MACL in its sole discretion considers eligible for the MACL Option Schemes on the basis of his or her contribution to the entity.

The total number of shares in respect of which options may be granted under the MACL Option Schemes is at the discretion of the board of MACL, subject to any applicable legal and regulatory requirements.

The MACL Option Schemes have not set out the below:

i) limit of maximum entitlement of each participant under the scheme;
ii) the period within which the securities must be taken up under an option; and
iii) the minimum period, if any, for which an option must be held before it can be exercised.

The exercise price is determined by the board of MACL at the fair value of the MACL's share price at the time of issue of the options.

The term of the options is up to 5 years. Payment must be made in full for all options exercised on the dates they are exercised. There are no specific vesting conditions. Vesting period is normally over three years. If employment or directorship ceases the options automatically terminate unless the board of MACL determines otherwise.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2015, the outstanding number of options represented approximately 3.75% of the issued share capital of MACL.

As at 23 February 2015, the outstanding share options were re-measured as if 23 February 2015 were the grant date of such options and were estimated using a binomial model, taking into account the terms and conditions upon which the options were granted. The fair value of the outstanding options as at 23 February 2015 was approximately NZD1,484,000 (equivalent to HK$8,334,000) and the weighted average fair value of these options was estimated as approximately NZD0.16 (equivalent to HK$0.91). Vesting period is normally over three years after the original grant date of the share options.

The following table lists the inputs to the model

Share price at 23 February 2015 (NZD)	0.43
Expected volatility	30.44%-36.94%
Risk-free interest rate (%)	1.87%-2.00%
Exercise multiple	2.5
Expected dividend yield	Nil

Movement of options granted under the MACL Option Schemes is as follows:

			Number of options		
	Original date of grant	Exercise price NZD	Balance as at 23 February 2015	Exercised during the period	Outstanding as at 30 June 2015
MACL Option Schemes					
Directors and employees of MACL	20 December 2010	0.24	400,000	–	400,000
	26 January 2011	0.24	716,670	(200,000)	516,670
	11 July 2012	0.24	450,000	(300,000)	150,000
	1 April 2013	0.24	3,000,000	–	3,000,000
	1 November 2014	0.43	4,640,000	–	4,640,000
			9,206,670	(500,000)	8,706,670
Exercisable			4,166,667		4,816,667
Weighted average exercise price (NZD)			0.336		0.341

MANAGEMENT DISCUSSION AND ANALYSIS

Share Option Scheme in Solar Ship Inc.

On 29 May 2015, the Group has completed the acquisition of Solar Ship Inc. ("Solar Ship"). As at 29 May 2015, Solar Ship has in aggregate 28,674 outstanding share options granted under the Stock Option Plan adopted by Solar Ship ("Solar Ship Option Scheme").

The purpose of the Solar Ship Option Scheme is to provide incentive to participants in recognition of their contribution to Solar Ship.

The directors of Solar Ship may offer to grant any employees or directors of Solar Ship on the basis of his or her contribution to the entity.

The total number of shares in respect of which options may be granted under the Solar Ship Option Scheme is at the discretion of the board of Solar Ship, subject to any applicable legal and regulatory requirements.

The Solar Ship Option Scheme has not set out the below:

i) limit of maximum entitlement of each participant under the scheme;
ii) the period within which the securities must be taken up under an option; and
iii) the minimum period, if any, for which an option must be held before it can be exercised.

The exercise price is determined by the board of Solar Ship at the fair value of the Solar Ship's share price at the time of issue of the options.

The term of the options is up to 5 years. Payment must be made in full for all options exercised on the dates they are exercised. There are no specific vesting conditions. Vesting period is normally over four years. If employment or directorship ceases the options automatically terminate.

As at 30 June 2015, the outstanding number of options represented approximately 11.81% of the issued share capital of Solar Ship.

As at 29 May 2015, the outstanding share options were re-measured as if 29 May 2015 were the grant date of such options and were estimated using a binomial model, taking into account the terms and conditions upon which the options were granted. The fair value of the unvested options as at 29 May 2015 was approximately CAD1,429,000 (equivalent to HK$8,897,000) and the weighted average fair value of these options was estimated as approximately CAD49.84 (equivalent to HK$310.29). Vesting period is normally over four years after the original grant date of the share options.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table lists the inputs to the model

Share price at 29 May 2015 (CAD)	139.75
Expected volatility	32.58%-35.83%
Risk-free interest rate (%)	0.57%-0.76%
Exercise multiple	2.5
Expected dividend yield	Nil

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

			Number of options		
	Original date of grant	Exercise price CAD	Balance as at 29 May 2015	Exercised during the period	Outstanding as at 30 June 2015
Solar Ship Option Scheme					
Directors and employees of Solar Ship	22 September 2010	124.58	3,200	–	3,200
	30 July 2012	124.58	100	–	100
	24 September 2013	124.58	1,000	–	1,000
	9 June 2014	124.58	19,500	–	19,500
	1 August 2014	124.58	1,000	–	1,000
	1 October 2014	124.58	500	–	500
	1 November 2014	124.58	3,200	–	3,200
	7 November 2014	143.26	87	–	87
	24 November 2014	143.26	87	–	87
			28,674	–	28,674
Exercisable			25,174		25,174
Weighted average exercise price (CAD)			124.69		124.69

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2015, the following directors or chief executive of the Company or his associates had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

	Number of Shares held	Number of underlying Shares held				Approximately percentage of
Name of Director	Corporate interests	Personal interests	Family interests	Corporate interests	Total	total issued Shares
Dr. Liu Ruopeng ("Dr. Liu")	2,045,666,667(L) (note 2)	–	3,000,000(L) (note 3)	912,333,333(L) (note 4)	2,961,000,000(L)	62.37%
	1,059,666,667(S) (note 5)	–	–	–	1,059,666,667(S)	22.32%
Mr. Ko Chun Shun Johnson ("Mr. Ko")	401,111,112(L) (note 6)	–	–	178,888,889(L) (note 7)	580,000,001(L)	12.22%
Dr. Zhang Yangyang ("Dr. Zhang")	–	15,000,000(L) (note 8)	–	–	15,000,000(L)	0.32%
Dr. Luan Lin ("Dr. Luan")	–	9,900,000(L) (note 9)	–	–	9,900,000(L)	0.21%

Notes:

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

2. This represents the interests in 2,045,666,667 Shares held by New Horizon Wireless Technology Limited ("New Horizon"), being a wholly-owned subsidiary of Wireless Connection Innovative Technology Limited which is owned as to 51% by Kuang-Chi Innovative Technology Limited and as to 49% by Shenzhen Kuang-Chi Hezhong Technology Limited. Kuang-Chi Innovative Technology Limited is a subsidiary of Shenzhen Dapeng Kuang-Chi Technology Limited, which is in turn a subsidiary of Shenzhen Dapeng Kuang-Chi Lianzhong Technology Limited Liability Partnership of which Dr. Liu is the controlling shareholder, and Dr. Liu is the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology Limited. Accordingly, Dr. Liu is deemed to be interested in the same number of Shares held by New Horizon.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

3. This represents the interests in the share options of the Company held by Ms. Huang Weizi ("Ms. Huang"), the spouse of Dr. Liu.

4. This represents the interests in the preferred shares of the Company held by New Horizon.

5. This represents a share charge given by New Horizon in favour of Ping An Bank Co. Ltd. (平安銀行股份有限公司) over 1,059,666,667 Shares owned by New Horizon.

6. This represents the interests in (i) 280,777,778 Shares held by Starbliss Holdings Limited ("Starbliss"); (ii) 120,333,333 Shares held by REORIENT Global Limited ("REORIENT Global"); and (iii) 1 Share held by REORIENT Financial Markets Limited. Starbliss is ultimately wholly owned by Mr. Ko. Both REORIENT Global and REORIENT Financial Markets Limited are wholly owned by REORIENT Group Limited, of which Mr. Ko is the controlling shareholder and an executive director. Accordingly, Mr. Ko is deemed to be interested in the same number of Shares held through Starbliss, REORIENT Global and REORIENT Financial Markets Limited.

7. This represents the interests in (i) 125,222,222 preferred shares of the Company held by Starbliss; and (ii) 53,666,667 preferred shares of the Company held by REORIENT Global.

8. This represents interests in the share options of the Company held by Dr. Zhang.

9. This represents interests in the share options of the Company held by Dr. Luan.

Save as disclosed above, as at 30 June 2015, no interests or short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2015, the following shareholders had interests, directly or indirectly, or short positions in the shares and underlying shares of the Company would fall to be disclosed to the Company and the Stock Exchange under provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximately percentage of total issued Shares
Ms. Huang	Beneficial owner and interest of spouse	2,045,666,667(L) (note 2)	915,333,333(L) (note 3)	2,961,000,000(L)	62.37%
		1,059,666,667(S) (note 4)	–	1,059,666,667(S)	22.32%
New Horizon	Beneficial owner	2,045,666,667(L) 1,059,666,667(S)	912,333,333(L)	2,958,000,000(L) 1,059,666,667(S)	62.30% 22.32%
Wireless Connection Innovative Technology Limited	Interest of controlled corporation	2,045,666,667(L) 1,059,666,667(S)	912,333,333(L) –	2,958,000,000(L) 1,059,666,667(S)	62.30% 22.32%
Shenzhen Dapeng Kuang-Chi Technology Limited Liability Partnership	Interest of controlled corporation	2,045,666,667(L) 1,059,666,667(S)	912,333,333(L) –	2,958,000,000(L) 1,059,666,667(S)	62.30% 22.32%
Shenzhen Dapeng Kuang-Chi Lianzhong Technology Limited	Interest of controlled corporation	2,045,666,667(L) 1,059,666,667(S)	912,333,333(L) –	2,958,000,000(L) 1,059,666,667(S)	62.30% 22.32%
Shenzhen Kuang-Chi Hezhong Technology Limited	Interest of controlled corporation	2,045,666,667(L) 1,059,666,667(S)	912,333,333(L) –	2,958,000,000(L) 1,059,666,667(S)	62.30% 22.32%
Kuang-Chi Innovative Technology Limited	Interest of controlled corporation	2,045,666,667(L) 1,059,666,667(S)	912,333,333(L) –	2,958,000,000(L) 1,059,666,667(S)	62.30% 22.32%
Ping An Bank Co., Ltd. (note 5)	Person having a security interest in Shares	1,059,666,667(S) (note 6)	–	1,059,666,667(S)	22.32%
Ping An Insurance (Group) Company of China, Ltd (中國平安保險(集團)股份有限公司)	Interest of controlled corporation	1,059,666,667(S)	–	1,059,666,667(S)	22.32%
Starbliss	Beneficial owner	280,777,778(L)	125,222,222(L) (note 7)	406,000,000(L)	8.55%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximately percentage of total issued Shares
World Treasure Global Limited (note 8)	Beneficial owner	638,981,013(L)	–	638,981,013(L)	13.46%
Mr. Wong Hin Shek	Interest of controlled corporation	638,981,013(L)	–	638,981,013(L)	13.46%
Cutting Edge Global Limited ("Cutting Edge") (note 9)	Beneficial owner	180,777,778(L)	125,222,222(L) (note 10)	306,000,000(L)	6.45%
Mr. Ye Cheng	Interest of controlled corporation	271,164,667(L) (note 11)	187,833,333(L) (note 12)	458,998,000(L)	9.67%

Notes:

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

2. This represents the interest in the Shares held by New Horizon. Ms. Huang, being the spouse of Dr. Liu, is deemed to be interested in the same number of Shares held by New Horizon.

3. This represents the interests in (i) 3,000,000 share options held by Ms. Huang; and (ii) 912,333,333 preferred shares of the Company held by New Horizon. Ms. Huang, being the spouse of Dr. Liu, is deemed to be interested in the same number of Shares held by New Horizon.

4. This represents the share charge given by New Horizon in favour of Ping An Bank Co. Ltd over 1,059,666,667 Shares owned by New Horizon. Ms. Huang, being the spouse of Dr. Liu, is deemed to be interested in the same number of Shares held by New Horizon.

5. Ping An Bank Co., Ltd. is owned as to 50.20% by Ping An Insurance (Group) Company of China, Ltd.

6. This represents a share charge given by New Horizon in favour of Ping An Bank Co., Ltd over 1,059,666,667 Shares owned by New Horizon.

7. This represents the interests in the preferred shares of the Company held by Starbliss.

8. World Treasure Global Limited is wholly owned and beneficially owned by Mr. Wong Hin Shek, a former executive Director.

9. Cutting Edge is wholly owned and beneficially owned by Mr. Ye Cheng.

10. This represents the interests in the preferred shares of the Company held by Cutting Edge.

11. This represents the interests in (i) 180,777,778 Shares of the Company held by Cutting Edge; and (ii) 90,388,889 Shares of the Company held by Lucky Time Global Limited ("Lucky Time"). Lucky Time is wholly owned and beneficially owned by Mr. Ye Cheng.

12. This represents the interests in (i) 125,222,222 preferred shares of the Company held by Cutting Edge; and (ii) 62,611,111 preferred shares of the Company held by Lucky Time

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

Save as disclosed above, as at 30 June 2015, the Company was not aware of any other person (other than the director or chief executive of the Company) who had an interest, directly or indirectly, or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Save as disclosed below, none of the Directors is a director or employee of the companies which have an interest in the ordinary shares and underlying ordinary shares of the Company as disclosed under the provisions of Divisions 2 and 3 Part XV of the SFO:

(1) Dr. Liu Ruopeng is a director of New Horizon, Wireless Connection Innovation Technology Limited, a director and an employee of Kuang-Chi Innovative Technology Limited, Shenzhen Kuang-Chi Hezhong Technology Limited and Shenzhen Dapeng Kuang-Chi Technology Limited, an employee of Shenzhen Dapeng Kuang-Chi Lianzhong Technology Limited Liability Partnership.

(2) Dr. Zhang Yangyang is a director of Shenzhen Dapeng Kuang-Chi Technology Limited, an employee of Shenzhen Kuang-Chi Hezhong Technology Limited.

(3) Dr. Luan Lin is a director of Shenzhen Dapeng Kuang-Chi Technology Limited.

(4) Mr Ko Chun Shun, Johnson, is director of Starbliss, Insula Holdings Limited, Gainhigh Holdings Limited and REORIENT Global.

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. The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

CHANGE OF INFORMATION OF DIRECTORS

During the Period, there were changes in Directors' information which are reported as follows:

1. On 19 June 2015, Mr. Ko Chun Shun Johnson has resigned as vice chairman and an executive director of Concord New Energy Group Limited (formerly known as China WindPower Group Limited) (stock code: 182).

2. On 30 June 2015, Mr. Lau Man Tak retired as an independent non-executive director of AMCO United Holding Limited (stock code: 630).

Save as disclosed above, as at 30 June 2015, there had not been any other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the directors. All directors have confirmed, 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 June 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SUFFICIENCY OF PUBLIC FLOAT

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

REVIEW OF INTERIM RESULTS

The interim results for the six months ended 30 June 2015 have been reviewed by the Company's Audit Committee and auditors, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 issued by the HKICPA.

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

Hong Kong, 26 August 2015

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF KUANGCHI SCIENCE LIMITED
光啟科學有限公司
(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of KuangChi Science Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on page 29 to 66, which comprise the condensed consolidated statement of financial position as of 30 June 2015 and the related condensed consolidated statement of profit or loss, condensed statement of profit or loss and other comprehensive income, condensed statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

OTHER MATTER

Without qualifying our review conclusion, we draw attention to the fact that the comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month ended 30 June 2014 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 August 2015

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	NOTES	Six months ended 30 June 2015 HK$'000 (Unaudited)	2014 HK$'000 (Unaudited)
Revenue	3	**55,537**	35,963
Cost of sales		**(34,939)**	(29,078)
Gross profit		**20,598**	6,885
Other income	4	**31,192**	1,418
Other gains and losses	5	**(13,005)**	2,529
Impairment loss recognised in respect of goodwill	12	**(13,501)**	(20,485)
Selling and distribution expenses		**(6,668)**	(1,454)
Research and development expenses		**(8,288)**	–
Administrative expenses		**(78,649)**	(10,759)
Finance costs		**(4,342)**	(194)
Loss before tax		**(72,663)**	(22,060)
Income tax expense	6	**(186)**	(74)
Loss for the period	7	**(72,849)**	(22,134)
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translating foreign operations		**(13,203)**	264
Total comprehensive expense for the period		**(86,052)**	(21,870)
Loss for the period attributable to:			
Shareholders of the Company		**(65,094)**	(22,134)
Non-controlling interests		**(7,755)**	–
		(72,849)	(22,134)
Total comprehensive expense attributable to:			
Shareholders of the Company		**(69,961)**	(21,870)
Non-controlling interests		**(16,091)**	–
		(86,052)	(21,870)
Loss per share	9		
Basic (HK cents per share)		**(1.66)**	(1.53)
Diluted (HK cents per share)		**(1.66)**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2015

	NOTES	**30 June 2015 HK$'000 (Unaudited)**	31 December 2014 HK$'000 (Audited)
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Plant and equipment	10	**115,561**	47,633
Investment properties	10	**13,100**	13,100
Intangible asset	11	**120,765**	–
Goodwill	12	**71,746**	13,501
Derivative financial assets	13	**47,000**	–
Deposit paid for acquisition of a company		**–**	133,277
Deposits paid for acquisition of plant and equipment		**26,110**	8,071
Pledged deposit		**299,592**	187,575
		693,874	403,157
CURRENT ASSETS			
Inventories		**28,612**	14,365
Trade and other receivables	14	**54,948**	33,411
Income tax recoverable		**4,861**	–
Bank balances and cash		**1,576,205**	1,485,818
		1,664,626	1,533,594
CURRENT LIABILITIES			
Trade and other payables	15	**53,362**	75,661
Income tax payable		**1,255**	752
Convertible debenture	16	**7,501**	–
Obligations under finance lease – amount due within one year		**916**	1,400
		63,034	77,813
NET CURRENT ASSETS		**1,601,592**	1,455,781
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,295,466**	1,858,938
NON-CURRENT LIABILITIES			
Long term payable		**345**	345
Bank borrowings	17	**282,397**	140,000
Obligations under finance lease – amount due after one year		**–**	233
Deferred tax liabilities		**161**	119

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2015

	NOTES	**30 June 2015 HK$'000 (Unaudited)**	31 December 2014 HK$'000 (Audited)
		282,903	140,697
NET ASSETS		**2,012,563**	1,718,241
CAPITAL AND RESERVES			
Share capital – Ordinary shares	18	**47,477**	34,061
Share capital – Preferred shares	18	**5,367**	10,733
Reserves		**1,694,151**	1,668,445
Equity attributable to owners of the Company		**1,746,995**	1,713,239
Non-controlling interests		**265,568**	5,002
TOTAL EQUITY		**2,012,563**	1,718,241

The notes on pages 35 to 66 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AT 30 JUNE 2015

	Attributable to shareholders of the Company										Attributable to non-controlling interests				
	Share capital-Ordinary shares HK$'000	Share capital-Preferred share HK$'000	Share premium HK$'000	Capital reserve HK$'000 (note a)	Contributed surplus HK$'000 (note b)	Share-based payment reserve HK$'000 (note c)	Option reserve HK$'000 (note d)	Exchange translation reserve HK$'000	Accumulated losses HK$'000	Subtotal HK$'000	Share-based payment reserves of subsidiaries HK$'000 (note e)	Convertible debenture equity reserve of a subsidiary HK$'000 (note f)	Share of net assets of subsidiaries HK$'000	Subtotal HK$'000	Total HK$'000
Balance at 1 January 2014 (unaudited)	14,495	-	254,893	17,900	103,941	-	-	1,289	(213,187)	179,331	-	-	-	-	179,331
Loss for the period	-	-	-	-	-	-	-	-	(22,134)	(22,134)	-	-	-	-	(22,134)
Other comprehensive income for the period	-	-	-	-	-	-	-	264	-	264	-	-	-	-	264
Total comprehensive expenses for the period	-	-	-	-	-	-	-	264	(22,134)	(21,870)	-	-	-	-	(21,870)
Balance at 30 June 2014 (unaudited)	14,495	-	254,893	17,900	103,941	-	-	1,553	(235,321)	157,461	-	-	-	-	157,461
Balance at 1 January 2015 (audited)	34,061	10,733	1,908,327	17,900	103,941	18,138	-	(535)	(379,326)	1,713,239	-	-	5,002	5,002	1,718,241
Loss for the period	-	-	-	-	-	-	-	-	(65,094)	(65,094)	-	-	(7,755)	(7,755)	(72,849)
Other comprehensive expense for the period	-	-	-	-	-	-	-	(4,867)	-	(4,867)	-	-	(8,336)	(8,336)	(13,203)
Total comprehensive expense for the period	-	-	-	-	-	-	-	(4,867)	(65,094)	(69,961)	-	-	(16,091)	(16,091)	(86,052)
Recognition of share-based payment	-	-	-	-	-	25,952	-	-	-	25,952	1,596	-	-	1,596	27,548
Settlement of share subscription price (note 18c)	-	101,966	-	-	-	-	-	-	-	101,966	-	-	-	-	101,966
Issue of ordinary shares upon conversion of preferred shares (note 18c)	13,416	(107,332)	93,916	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of subsidiaries (note 19)	-	-	-	-	-	-	(24,201)	-	-	(24,201)	11,325	3,823	259,913	275,061	250,860
Balance at 30 June 2015 (unaudited)	47,477	5,367	2,002,243	17,900	103,941	44,090	(24,201)	(5,402)	(444,420)	1,746,995	12,921	3,823	248,824	265,568	2,012,563

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AT 30 JUNE 2015

Notes:

(a) The balance of capital reserve represents the capital reserve arising from the group restructuring which took place in 1992.

(b) The balance of contributed surplus arose as result of the Company's capital reduction exercises which took place in the financial years of 2003 and 2006.

(c) The balance of share-based payment reserve represents share options granted on 26 August 2014.

(d) The balance of option reserve represents the option right arising from the acquisition of a subsidiary in 2015 as set out in note 19(b).

(e) The balance of share-based payment reserves of subsidiaries represent share options granted by subsidiaries as set out in note 19(a) and 19(b).

(f) The balance of convertible debenture equity reserve of a subsidiary represents the equity element of convertible debenture issued by a subsidiary as set out in note note 19(b).

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	NOTES	Six months ended 30 June 2015 HK$'000 (Unaudited)	2014 HK$'000 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES		**(137,763)**	(14,960)
INVESTING ACTIVITIES			
Purchase of plant and equipment		**(81,149)**	–
Purchase of intangible assets		**(2,062)**	–
Dividend received		**–**	274
Proceeds from disposal of investment properties		**–**	1,800
Proceeds from disposal of plant and equipment		**280**	793
Interest received		**25,914**	364
Placement of pledged deposit		**(113,326)**	–
Release of deposit paid for acquisition of a company	19(a)	**135,200**	–
Net cash inflows from acquisitions of subsidiaries	19	**19,755**	–
Disposal of subsidiaries	20	**–**	12,001
NET CASH (USED IN) GENERATED BY INVESTING ACTIVITIES		**(15,388)**	15,232
FINANCING ACTIVITIES			
Proceeds from bank borrowings		**142,397**	–
Proceeds from issue of preferred shares		**101,966**	–
Advance from a related party		**5,835**	–
Advance from related companies		**–**	155
Repayment of principal for obligations under finance lease		**(864)**	(707)
Repayment of bank borrowings		**–**	(89)
NET CASH GENERATED BY (USED IN) FINANCING ACTIVITIES		**249,334**	(641)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**96,183**	(369)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**1,485,818**	41,472
Effect of foreign exchange rate changes		**(5,796)**	213
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balances and cash		**1,576,205**	41,316

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

1. BASIS OF PREPARATION

The condensed consolidated financial statements of KuangChi Science Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and derivative financial assets which are measured at fair values.

Except as described below the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2015 are the same as those followed in the preparation of the Group's annual financial statements for the nine months ended 31 December 2014.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period:

Amendment to HKAS 19	Defined Benefit Plans: Employee Contribution
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle

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.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively; and

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by HKFRSs.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment of intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Internally-generated intangible assets — research and development expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Internally-generated intangible assets — research and development expenses (Continued)

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired in a business combination disclosed above.

Convertible debenture

Convertible debenture containing liability and equity components

The component parts of the convertible debenture issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in non-controlling interests in the "convertible equity reserve of a subsidiary", net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in non-controlling interests until the conversion option is exercised or if it remains unexercised at the maturity date of the convertible debenture, in which case, the balance recognised in non-controlling interests will be transferred to the non-controlling interests' share of net assets of subsidiaries. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible debenture are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to non-controlling interests "convertible equity reserve of a subsidiary". Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of convertible debenture using the effective interest method.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial assets at fair value through profit or loss ("FVTPL")
Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading, or (iii) designated as at FVTPL.

A financial asset is classified as held for trading if:

– it has been acquired principally for the purpose of selling it in the near term; or

– on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

– it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

Derivative financial instruments
Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

3. SEGMENT INFORMATION

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

	Novel space services Six months ended 30 June		Paper business Six months ended 30 June		Property investment Six months ended 30 June		Total Six months ended 30 June	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue	**20,141**	–	**35,220**	35,296	**176**	667	**55,537**	35,963
Segment (loss) profit	**(23,000)**	–	**(26,849)**	(21,477)	**167**	573	**(49,682)**	(20,904)
Unallocated corporate income							**30,563**	3,941
Unallocated corporate expenses							**(49,202)**	(4,903)
Finance costs							**(4,342)**	(194)
Loss before tax							**(72,663)**	(22,060)

The accounting policies of the operating segments are the same as the Group's accounting policies.

Segment loss represents the loss reported earned by each segment without allocation of central corporate income and expenses directors' remuneration, gain on disposal of subsidiaries, certain share-based payments, certain other income, and finance costs. This is the measure reported to the executive directors for the purposes of resource allocation and performance assessment.

3. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

Segment assets

	30 June 2015 HK$'000	31 December 2014 HK$'000
Novel space services	**433,748**	164,008
Paper business	**48,796**	73,509
Property investment	**13,107**	13,109
Total segment assets	**495,651**	250,626
Unallocated corporate assets	**1,862,849**	1,686,125
Consolidated assets	**2,358,500**	1,936,751

Segment liabilities

	30 June 2015 HK$'000	31 December 2014 HK$'000
Novel space services	**39,593**	44,111
Paper business	**18,685**	21,144
Property investment	**156**	157
Total segment liabilities	**58,434**	65,412
Unallocated corporate liabilities	**287,503**	153,098
Consolidated liabilities	**345,937**	218,510

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

- all assets are allocated to operating segments other than pledged deposit, bank balances and cash and other assets for corporate use including certain plant and equipment, deposits and other receivables and derivative financial assets; and

- all liabilities are allocated to operating segments other than bank borrowings, deferred tax liabilities and certain other payables.

4. OTHER INCOME

	Six months ended 30 June	
	2015	2014
	HK$'000	HK$'000
Sales of scrap materials	**329**	280
Interest income earned on bank balances and pledged deposit	**30,338**	364
Dividend income	**–**	274
Management fee income (note)	**300**	360
Sundry income	**225**	140
	31,192	1,418

Note:

For the six months ended 30 June 2015 and 2014, the amount represented income from administrative services provided to a related company, New Spring Label & Packaging Limited ("New Spring Label"), of which Mr. Ng Man Chan ("Mr. Ng"), a director of a number of subsidiaries of the Company, and a close family member of Mr. Ng are controlling shareholders (note 22). Mr. Ng was a director of the Company as at 30 June 2014 and resigned in 27 February 2015.

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2015	2014
	HK$'000	HK$'000
Loss on disposal of plant and equipment	**(928)**	(67)
Gain on disposal of subsidiaries	**–**	3,303
Loss arising on change in fair value of financial assets classified as held for trading investments	**–**	(330)
Impairment loss recognised in respect of plant and equipment	**(2,155)**	–
Loss arising on change in fair value of derivative financial assets	**(4,963)**	–
Exchange loss, net	**(4,959)**	(377)
	(13,005)	2,529

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2015	2014
	HK$'000	HK$'000
The charge comprises:		
Hong Kong Profits Tax – Current tax	**186**	45
Deferred taxation	**–**	29
	186	74

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

No provision for the People's Republic of China ("PRC") Enterprise Income Tax has been made in the condensed financial statements as the PRC subsidiaries have no assessable profit for the period.

7. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2015	2014
	HK$'000	HK$'000
Loss for the period has been arrived at after charging:		
Staff costs and directors' emoluments:		
Staff costs:		
Salaries and other benefits	**18,104**	3,760
Share-based payments	**18,270**	–
Contributions to retirement benefit	**1,775**	616
	38,149	4,376
Directors' emoluments:		
Fees and other benefits	**1,993**	975
Share-based payments	**9,278**	–
	11,271	975
	49,420	5,351
Amortisation for intangible assets	**2,876**	–
Depreciation for plant and equipment	**2,431**	2,375
Financial advisory and legal fees	**14,500**	75

8. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30 June 2015 (six months ended 30 June 2014: nil). The directors of the Company have resolved not to declare any dividend for both of the interim periods.

9. LOSS PER SHARE

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

	Six months ended 30 June	
	2015	2014
	HK$'000	HK$'000
Loss		
Loss for the purpose of basic and diluted loss per share (loss for the period attributable to shareholders of the Company)	**(65,094)**	(22,134)

	Six months ended 30 June	
	2015	2014
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**3,932,356,927**	1,449,501,125
Weighted average number of ordinary shares for the purpose of diluted loss per share	**3,932,356,927**	N/A

For the six months ended 30 June 2015, the computation of diluted loss per share does not assume the conversion of the Company's outstanding preferred shares and the subsidiaries' convertible debenture nor the exercise of the Company's and the subsidiaries' outstanding share options since their conversion or exercise would result in a decrease in loss per share. There was no outstanding potentially dilutive instrument in the Group for the six months ended 30 June 2014.

10. MOVEMENTS IN PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 June 2015, the Group acquired property, plant and equipment of approximately HK$63,088,000 (six months ended 30 June 2014: HK$8,000).

In addition, the Group acquired plant and equipment through the acquisitions of subsidiaries of approximately HK$11,170,000 (six months ended 30 June 2014: nil) during the six months ended 30 June 2015 as set out in note 19.

During the six months ended 30 June 2015, the Group disposed of certain machineries with an aggregate carrying amount of HK$1,208,000 (six months ended 30 June 2014: HK$860,000) for cash proceeds of HK$280,000 (six months ended 30 June 2014: HK$793,000), resulting in a loss on disposal of HK$928,000 (six months ended 30 June 2014: HK$67,000).

During the six months ended 30 June 2015, the Group carried out a review of the recoverable amount of the plant and machinery in the paper business segment. The review led to the recognition of an impairment loss HK$2,155,000 (six months ended 30 June 2014: nil), which has been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 11.19% per annum. No impairment assessment was performed for the six months ended 30 June 2014 as there was no indication of impairment.

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

The key input used in valuing the investment property is price per square foot. A slight increase in the price per square foot will increase significantly the fair value of the investment property and vice versa. Details of the Group's investment property and information about the fair value hierarchy as at 30 June 2015 is as follows:

	Level 3 HK$'000	**Fair values as at 30 June 2015** HK$'000
Residential premise located in Hong Kong	13,100	13,100

The valuation as at 30 June 2015 was not carried out by independent qualified valuer. The fair value of the investment property of the Company as at 30 June 2015 is based on the directors' estimation with reference to the available market information.

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

11. INTANGIBLE ASSETS

	Technical knowhow and patents HK$'000	Development costs HK$'000	Total HK$'000
COST			
At 1 April 2014, 31 December 2014 and 1 January 2015	–	–	–
Addition arising from acquisition of subsidiaries (note 19)	126,326	–	126,326
Additions	–	2,062	2,062
Effect of foreign currency exchange differences	(4,765)	(80)	(4,845)
At 30 June 2015	121,561	1,982	123,543
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 April 2014, 31 December 2014 and 1 January 2015	–	–	–
Amortisation expense	(2,830)	(46)	(2,876)
Effect of foreign currency exchange differences	96	2	98
At 30 June 2015	(2,734)	(44)	(2,778)
CARRYING AMOUNTS			
At 30 June 2015	118,827	1,938	120,765
At 31 December 2014	–	–	–

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight line basis over the following periods:

Technical knowhow and patents	10 – 16 years
Development costs	10 – 16 years

Technical knowhow and patents represent patented technical knowledge and techniques acquired through acquisitions of subsidiaries to develop and commercialise jetpack products and solar powered aircrafts including costs of patents registered in the names of the acquirees. The various patents were registered in various countries and will expire ranging from 10 to 16 years after the end of the reporting period.

12. GOODWILL

	HK$'000
COST	
At 1 April 2014, 31 December 2014 and 1 January 2015	84,054
Addition arising from acquisition of subsidiaries (note 19)	71,746
At 30 June 2015	155,800
IMPAIRMENT	
At 1 April 2014	36,393
Impairment loss recognised in the period	34,160
At 31 December 2014 and 1 January 2015	70,553
Impairment loss recognised in the period	13,501
At 30 June 2015	84,054
CARRYING AMOUNTS	
At 30 June 2015	71,746
At 31 December 2014	13,501

For the purposes of impairment testing, goodwill has been allocated to three individual cash generating units ("CGU"), being 3 groups of subsidiaries operating in 1) paper business; 2) development and commercialisation of jetpack products business, and 3) development and commercialisation of solar powered aircrafts business.

The carrying amounts of goodwill (net of accumulated impairment losses) as at 30 June 2015 allocated to these 3 CGUs are as follows:

	30 June 2015 HK$'000	31 December 2014 HK$ '000
Paper business	**–**	13,501
Development and commercialisation of jetpack products	**32,364**	–
Development and commercialisation of solar powered aircrafts	**39,382**	–
	71,746	13,501

12. GOODWILL (Continued)

The Group conducted impairment review on goodwill attributable to CGU operating in paper business at the end of the reporting period by reference to its estimated recoverable amount. The recoverable amount of each CGU has been determined based on a value-in-use calculation. Impairment loss amounting to approximately HK$13,501,000 was recognised in respect of the CGU operating in paper business during the six months ended 30 June 2015 due to the continuous deterioration of industrial performance (six months ended 30 June 2014: HK$20,485,000). The recoverable amount of the CGU, determined by using value-in-use, was HK$39,424,000. The impairment calculation used cash flow projections based on financial budgets approved by the directors of the Company covering a five-year period, with pre-tax discount rate of 11.19% (31 December 2014: 11.19%). The cash flows beyond the five-year period were extrapolated using a steady growth rate of 3% (31 December 2014: 3%). 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.

The Group also conducted impairment reviews on goodwill attributable to CGUs operating in development and commercialization of jetpack products business ("Jetpack CGU") and solar powered aircrafts business ("Aircrafts CGU") at the end of the reporting period by reference to respective CGU's value-in-use and assessed that no impairment was necessary. The impairment calculation used cash flow projections based on financial budgets approved by the directors of the company covering a 5-year period for Jetpack CGU and Aircrafts CGU, with pre-tax discount rate of 19.7% for Jetpack CGU and 26.6% for Aircrafts CGU. The cash flows beyond the 5-year period were extrapolated using a steady growth rate of 2% for both Jetpack CGU and Aircrafts CGU. 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 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.

12. GOODWILL (Continued)

The following table illustrates the effect on value-in-use ("VIU") of reasonably possible changes to key assumptions for Jetpack CGU and Aircrafts CGU respectively. This reflects the sensitivity of VIU to each key assumption on its own and it is possible that more than one favourable and/or unfavourable change will occur at the same time. The directors of the Company consider that a reasonably possible unfavourable change in key assumptions will not lead to the goodwill impairment losses. However, as both of the CGUs are in development stage, a significant unfavourable change in any of the key assumptions could cause an impairment loss to be recognised in respect of these CGUs.

Jetpack CGU-Martin Aircraft Company Limited ("MACL")

At 30 June 2015	**Favourable change**	**Unfavourable change**
Perpetual growth rate (current model: 2%)	+1%	–1%
Increase/(decrease) in VIU (HK$'000)	26,611	(24,163)
Discount rate (current model: 19.7%)	–10% to 17.73%	+10% to 21.67%
Increase/(decrease) in VIU (HK$'000)	97,138	(73,293)

Aircrafts CGU-Solar Ship Inc. ("Solar Ship")

At 30 June 2015	**Favourable change**	**Unfavourable change**
Perpetual growth rate (current model: 2%)	+1%	–1%
Increase/(decrease) in VIU (HK$'000)	5,553	(5,203)
Discount rate (current model: 26.6%)	–10% to 23.94%	+10% to 29.26%
Increase/(decrease) in VIU (HK$'000)	62,791	(48,623)

13. DERIVATIVES FINANCIAL ASSETS

	30 June 2015 HK$'000	31 December 2014 HK$'000
Derivatives – Swap Right (as defined in note 19(a))	**18,429**	–
Derivative – subscription right of Convertible Securities (as defined in note 19(a))	**28,571**	–
	47,000	–

During the six months ended 30 June 2015, the Group entered into an investment agreement with MACL as set out in note 19(a). The agreement contains derivatives. During the six months ended 30 June 2015, loss arising on change in fair value of Swap Right and subscription right of Convertible Securities amounted to HK$1,921,000 and 3,042,000 respectively (2014: nil).

14. TRADE AND OTHER RECEIVABLES

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

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

	30 June 2015 HK$'000	31 December 2014 HK$'000
Trade receivables (note a)		
0 – 30 days	**6,071**	7,835
31 – 60 days	**5,858**	7,056
61 – 90 days	**1,152**	3,285
91 – 180 days	**250**	292
181 – 365 days	**55**	146
	13,386	18,614
Deposits and other receivables	**9,505**	2,523
Interest receivables	**4,428**	4,237
Loan receivable (note b)	**–**	6,346
Prepayments (note c)	**27,629**	1,691
	54,948	33,411

Notes:

a. At 30 June 2015, balances included in trade receivables amounting to approximately HK$2,577,000 (2014: HK$5,167,000) due from New Spring Label, a related Company of which Mr. Ng and Ms. Li are controlling shareholders. The amount is unsecured, non-interest bearing, and trading in nature with credit period of 60 days.

b. Amount represents interest free loan advanced to MACL amounting to AUD1,000,000 (equivalent to approximately HK$6,346,000). The repayment of the loan shall be made by way of offsetting the loan amount against the Convertible Securities subscription price payable by the Company on subscription of the Convertible Securities (note 19(a)). The entire balance was eliminated on consolidation as at 30 June 2015 as MACL became a subsidiary of the Group on 23 February 2015 (note 19(a)).

c. Included in the prepayment, there is a prepaid advertising expenses amounting to HK$17,800,000 for business image promotion through media in Beijing in relation to the Noval Space Services.

15. TRADE AND OTHER PAYABLES

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

	30 June 2015 HK$'000	31 December 2014 HK$'000
Trade payables		
0 – 90 days	**4,354**	9,561
Over 90 days	**2,554**	3,753
	6,908	13,314
Deferred revenue	**–**	5,719
Deposit received	**–**	106
Other payables and accruals (note)	**20,111**	44,845
Construction cost payable	**15,032**	1,000
Salaries and other benefits payable	**11,311**	10,677
	53,362	75,661

All Group's trade payables are denominated in the functional currency of the group entities.

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

Note:

As at 30 June 2015, included in other payables and accruals is a balance due to a related company, REORIENT Financial Markets Limited ("REORIENT") of approximately HK$4,079,000 (31 December 2014: HK$41,463,000) mainly in relation to the financial advisory services rendered on the acquisitions of Solar Ship (31 December 2014: MACL). REORIENT is a wholly-owned subsidiary of REORIENT Group Limited ("RGL"), a listed company in the Stock Exchange, and Mr. Ko Chun Shun, an executive director and a shareholder with significant influence over the Company, is also a director and the controlling shareholder of RGL. The amount is unsecured, non-interest bearing and repayable on demand.

In addition, as at 30 June 2015, balance of other payables and accruals includes approximately HK$5,835,000 (31 December 2014: nil) due to Mr. Ng. The amount is unsecured interest-free and repayable on demand.

16. CONVERTIBLE DEBENTURE

This represents an unsecured convertible debenture of Solar Ship, which was acquired on 29 May 2015 as part of the acquisition set out in note 19(b), The convertible debenture is denominated in Canadian dollars ("CAD"), outstanding with par value of CAD1,000,000(equivalent to approximately HK$6,246,000) bearing interest at 12% per annum and mature in November 2015. The convertible debenture holders are entitled to convert the convertible debenture into common shares of Solar Ship at a price of CAD100 per share.

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

17. BANK BORROWINGS

	30 June 2015 HK$'000	31 December 2014 HK$'000
Borrowings repayable more than two years but not more than five years secured by pledged deposit (note)	**282,397**	140,000
	282,397	140,000

Note:

The borrowings carried interest at three-month Hong Kong Interbank Offer Rate plus a margin of 2.8% which is approximately 3.19% as at 30 June 2015 (2014: 3.18%). The borrowings were secured by pledged deposit amounting to HK$299,592,000 (2014: HK$187,575,000) as at 30 June 2015.

18. SHARE CAPITAL

Ordinary shares	**Number of shares**	**Equivalent to** HK$'000
Authorised:		
Ordinary shares of HK$0.01 each at 1 April 2014	10,000,000,000	100,000
Reclassification (note a)	(2,683,333,332)	(26,833)
At 31 December 2014 and 30 June 2015	7,316,666,668	73,167
Issued and fully paid:		
At 1 April 2014	1,449,501,125	14,495
Subscription of shares (note a)	1,666,666,668	16,667
Subscription of shares (note b)	289,900,000	2,899
At 31 December 2014 and 1 January 2015	3,406,067,793	34,061
Issue of ordinary shares upon conversion of preferred shares (note c)	1,341,666,666	13,416
At 30 June 2015	4,747,734,459	47,477

Preferred shares	**Number of shares**	**Equivalent to** HK$'000
Authorised:		
Preferred shares of HK$0.01 each at 1 April 2014	–	–
Reclassification (note a)	2,683,333,332	26,833
At 31 December 2014 and 30 June 2015	2,683,333,332	26,833
Issued and partially paid each:		
At 1 April 2014	–	–
Subscription of shares (note a)	2,683,333,332	10,733
At 31 December 2014	2,683,333,332	10,733
Settlement of share subscription price (note c)	–	101,966
Conversion into ordinary share (note c)	(1,341,666,666)	(107,332)
At 30 June 2015	1,341,666,666	5,367

18. SHARE CAPITAL (Continued)

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 preferred share, representing 5% of the total issue price. In the event that by the last day of the relevant payment dates (i.e. 22 August 2016), the relevant holders of the remaining partially paid preferred shares have not paid in full its balance of the aggregate issue price of the preferred shares, such preferred shares issued to such holders of the preferred shares will be forfeited.

   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.

   Each preferred share is convertible into one ordinary share by the preferred shareholder serving the conversion notice to the Company within the conversion period, without the payment of any additional consideration after the preferred shares have been fully paid according to the terms set out in the Subscription Agreement. The conversion period commences from 22 August 2014 and ends on 22 August 2016.

   The holders of the preferred shares are not entitled to attend or vote at any general meeting of the Company and none of the preferred shares shall receive any dividend out of the funds of the Company available for distribution.

b. 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. None of the subscribers were connected persons of the Company. 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.

c. On 20 April 2015, the Company received approximately HK$101,966,000 to pay for 1,341,666,666 of the preferred shares in full and received notices from the relevant holders of the fully paid preferred shares to convert the entire 1,341,666,666 fully paid preferred shares into ordinary shares. The amount transferred from preferred share capital to ordinary share capital was approximately HK$107,332,000, in which approximately HK$13,416,000 was allocated to ordinary share capital and approximately HK$93,916,000 was allocated to share premium.

19. ACQUISITION OF SUBSIDIARIES

During the six months ended 30 June 2015, for the purpose of business expansion, the Group has acquired controlling interests in the following entities, which have been accounted for using acquisition method:

Subsidiaries acquired

	Principal activity	Place of incorporation/ operations	Class of shares held	Paid up issued share capital	Proportion of ownership interest held by the Company Indirectly 30 June 2015	Proportion of ownership interest held by the Company Indirectly 31 December 2014	Proportion of voting power held by the Company 30 June 2015	Proportion of voting power held by the Company 31 December 2014	Date of acquisition	Proportion of shares acquired	Net Consideration transferred HK$'000
2015											
MACL (note a)	Development and commercialisation of jetpack products	New Zealand	Ordinary shares	245,294,108	22.73%	–	22.73%	–	23 February 2015	22.83%	83,237
Solar Ship (note b)	Development and commercialisation of solar powered aircrafts	Canada	Common shares	242,695	32.58%	–	32.58%	–	29 May 2015	32.58%	81,884
											165,121

19. ACQUISITION OF SUBSIDIARIES (Continued)

The summarised consolidated financial information in accordance with Hong Kong Financial Reporting Standards before intragroup eliminations in respect of subsidiaries that have material non-controlling interest is set out below.

MACL	**30 June 2015**
	HK$'000
Non-current assets	88,262
Current assets	127,749
Non-current liabilities	(14,836)
Current liabilities	–
Equity attributable to shareholders of the Company	39,838
Non-controlling interests	161,337

	From 23 February 2015 to 30 June 2015
	HK$'000
Revenue	–
Expenses	(7,526)
Loss for the period	(7,526)
Other comprehensive expense	
Items that may be reclassified subsequently to profit and loss:	
Exchange differences on translating foreign operations	(22,297)
Total comprehensive expense for the period	(29,823)
Loss for the period attributable to:	
Shareholders of the Company	(1,711)
Non-controlling interests	(5,815)
	(7,526)
Total comprehensive expense attributable to:	
Shareholders of the Company	(6,779)
Non-controlling interests	(23,044)
	(29,823)

19. ACQUISITION OF SUBSIDIARIES (Continued)

Solar Ship	**30 June 2015** HK$'000
Non-current assets	72,460
Current assets	92,113
Non-current liabilities	(13,286)
Current liabilities	(7,501)
Equity attributable to shareholders of the Company	46,845
Non-controlling interests	96,941

	From 29 May 2015 to 30 June 2015 HK$'000
Revenue	–
Expenses	(2,877)
Loss for the period	(2,877)
Other comprehensive income	
Items that may be reclassified subsequently to profit and loss:	
Exchange differences on translating foreign operations	291
Total comprehensive expense for the period	(2,586)
Loss for the period attributable to:	
Shareholders of the Company	(937)
Non-controlling interests	(1,940)
	(2,877)
Total comprehensive expense attributable to:	
Shareholders of the Company	(843)
Non-controlling interests	(1,743)
	(2,586)

19. ACQUISITION OF SUBSIDIARIES (Continued)

Subsidiaries acquired (Continued)

As at the respective acquisition dates, the Company acquired 22.83% and 32.58% of the outstanding equity interest of MACL and Solar Ship respectively. In addition, as set out in more details in the notes below, as part of the acquisition agreements, the Company obtained rights to financial instruments containing potential voting rights to the Company for both investments ("the Conversion Rights"). Upon exercising these Conversion Rights, the Company's shareholding in MACL and Solar Ship will be approximately 52% and 54.42% respectively, determined based on the number of shares in issue as at the respective acquisition dates and as at 30 June 2015. The dilution effect of the convertible debenture and outstanding share options issued by MACL and Solar Ship is insignificant to the Company's shareholding in MACL and Solar Ship. As the Company has practical ability to exercise these Conversion Rights which gives the Company the current ability to direct the relevant activities of the respective investees, the directors of the Company consider the Company has control over MACL and Solar Ship. As a result, the Group applied the acquisition method in accounting for the acquisitions of MACL and Solar Ship.

The initial accounting of assets acquired and liabilities assumed for the acquisitions in both acquisitions of MACL and Solar Ship were provisional as at 30 June 2015 because the directors of the Company considered that, between the acquisition dates and the dates that these condensed financial statements are authorized to issue, the time is not sufficient for the valuation of the assets acquired and liabilities assumed.

Goodwill arose in these acquisitions because the considerations paid for the business combinations effectively included amounts in relation to the benefit of collaboration with the acquirees to develop cutting edge aviation and communication technologies which aimed at penetrating global markets. In addition, the Company could leverage on the acquirees' experiences on integrating technologies in revenue driving business. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Acquisition-related costs arising from these acquisitions have been excluded from the consideration transferred and have been recognised as an expense during the period, within the administrative expenses line item in the condensed consolidated statement of profit or loss and other comprehensive income.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

19. ACQUISITION OF SUBSIDIARIES (Continued)

Subsidiaries acquired (Continued)

Notes:

(a) On 19 December 2014, the Company and MACL entered into an investment agreement ("Investment Agreement"), pursuant to which upon MACL fulfilling certain conditions ("MACL Conditions"), the Company will (i) acquire up to 15,000,000 ordinary shares of MACL at an issue price of AUD0.40 per share from certain shareholders of MACL; (ii) subscribe for 40,813,636 new ordinary shares in MACL at an issue price of AUD0.40 per share; (iii) subscribe for convertible securities ("Convertible Securities") that are convertible into 57,500,000 new ordinary shares of MACL at an issue price of AUD0.40 per share; and (iv) subject to the completion of the subscription of the new ordinary shares per (ii) above, the Company is to incorporate a company ("HKCo") together with MACL in which the Company will contribute AUD2,000,000 (equivalent to approximately HK$12,692,000) and will hold 51% of interest. At any time prior to 19 June 2017, the Company has the swap right (the "Swap Right") to sell its 51% equity interest in HKCo to MACL which shall be satisfied by way of allotment and issuance of 89,250,000 MACL shares.

Pursuant to the Investment Agreement, as at 31 December 2014, the Company paid an interest bearing deposit on escrow (the "Deposit on Escrow") for approximately AUD21,000,000 (equivalent to approximately HK$133,277,000), where the deposit would be returned to the Company should MACL not meet the conditions set out in the Investment Agreement.

On 23 February 2015, the MACL Conditions were fulfilled. Accordingly, the Company subscribed for 40,813,636 new shares of MACL and acquired 14,950,000 existing shares of MACL for an aggregate amount of approximately AUD22,305,000 (equivalent to approximately HK$135,200,000). The Deposit on Escrow was released upon the completion of the acquisition.

After the above acquisition and subscription of shares in MACL, the Company holds approximately 22.83% of the MACL's issued share capital as at the acquisition date. As at the date that these condensed consolidated financial statements were authorised for issue, the Company has the right to acquire but has not acquired the Convertible Securities and has the right to exercise but has not exercised the Swap Right.

The acquisition allows the Group to benefit from the aviation and flying technology of MACL for the development of the civil near space flying apparatus and the wifi broadcasting technology.

Fair value of assets acquired and liabilities assumed at the date of acquisition (determined on a provisional basis)

	HK$'000
Plant and equipment	3,881
Technical knowhow and patents for development and commercialisation of jetpack products	76,167
Other receivables	1,709
Bank balances and cash	167,043
Other payables	(20,076)
	228,724

The other receivables acquired in the transaction carried a fair value of HK$1,709,000. The gross contractual amounts of those receivables acquired amounted to HK$1,709,000 at the date of acquisition. None of the contractual cash flows are not expected to be collected at acquisition date.

19. ACQUISITION OF SUBSIDIARIES (Continued)

Subsidiaries acquired (Continued)

Notes: (Continued)

(a) (Continued)

Goodwill arising from acquisition (determined on a provisional basis)

	Total HK$'000
Cash consideration transferred	135,200
Less: Fair value of derivative financial assets acquired	
– subscription right of Convertible Securities	(31,613)
– Swap Right	(20,350)
Net consideration transferred	83,237
Add: Non-controlling interests – share of net assets	171,962
Add: Non-controlling interests – share based payment reserve*	5,889
Less: Fair value of identifiable net assets acquired	(228,724)
Goodwill arising from acquisition	32,364

* As at the acquisition date, MACL had a share option scheme in terms of which share options over MACL's own shares were granted to its directors and employees. This share option scheme was not exchanged by the Group upon acquisition.

The non-controlling interests (77.17%) in MACL which represented present ownership interests in MACL recognised on acquisition date were measured at the proportion of the fair value of net assets of MACL attributable to the non-controlling interests.

Net cash inflow on acquisition of subsidiaries

	Six months ended 30 June 2015 HK$'000
Consideration paid in cash	(135,200)
Add: bank balances and cash acquired	167,043
	31,843

MACL contributed no revenue and incurred a loss of HK$7,365,000 for the period from the date of acquisition to 30 June 2015.

If the acquisition has been completed on 1 January 2015, total revenue of the Group for the six months ended 30 June 2015 would have been HK$55,537,000 and loss for the six months ended 30 June 2015 would have been HK$77,672,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

19. ACQUISITION OF SUBSIDIARIES (Continued)

Subsidiaries acquired (Continued)

Notes: (Continued)

(b) On 3 April 2015, the Company and Solar Ship entered into an investment agreement, pursuant to which upon Solar Ship fulfilling certain conditions ("Solar Ship Conditions"), the Company will subscribe for 79,070 new common shares in Solar Ship, representing approximately 32.58% of the outstanding common shares in Solar Ship for consideration of CAD 17,000,000. Also on the same day, the Company and Solar Ship entered into an option agreement, pursuant to which the Company was granted the option ("Option") exercisable by the Company during the period from the completion of Solar Ship Conditions to 15 October 2016 (Toronto time) to subscribe for 116,279 additional common shares in Solar Ship for consideration of CAD 25,000,000 (equivalent to approximately HK$156,158,000), which will result in the Company holding approximately 54.42% of the outstanding common shares in Solar Ship. The dilution effect of the convertible debenture and outstanding share options issued by Solar Ship is insignificant to the Company's shareholding in Solar Ship.

On 29 May 2015, the Solar Ship Conditions were fulfilled. As a result, the Company subscribed for 79,070 new common shares in Solar Ship at the subscription money of CAD17,000,000 (equivalent to approximately HK$106,085,000), representing 32.58% of the outstanding common shares of Solar Ship. As at the date that these condensed consolidated financial statements were authorised for issue, the Company has the right to exercise, but has not exercised, the Option.

The acquisition allows the Group to benefit from Solar Ship's aviation and flying technology for the development of Novel Space services.

Fair value of assets acquired and liabilities assumed at the date of acquisition (determined on a provisional basis)

	HK$'000
Plant and equipment	7,289
Technical knowhow and patents for development and commercialisation of solar powered aircrafts	50,159
Other receivables	8,151
Bank balances and cash	93,997
Tax recoverable	712
Other payables	(13,056)
Obligation under finance leases	(147)
Convertible debenture	(7,393)
	139,712

The other receivables acquired in the transaction carried a fair value of HK$8,151,000. The gross contractual amounts of those receivables acquired amounted to HK$8,151,000 at the date of acquisition. None of the contractual cash flows are not expected to be collected at acquisition date.

19. ACQUISITION OF SUBSIDIARIES (Continued)

Subsidiaries acquired (Continued)

Notes: (Continued)

(b) (Continued)

Goodwill arising from acquisition (determined on a provisional basis)

	Total
	HK$'000
Cash consideration transferred	106,085
Less: Fair value of Option acquired	(24,201)
Net consideration transferred	81,884
Add: Non-controlling interests – share of net assets	87,951
Add: Non-controlling interests – share-based payment*	5,436
Add: Non-controlling interests – convertible debenture equity reserve	3,823
Less: Fair value of identifiable net assets acquired	(139,712)
Goodwill arising from acquisition	39,382

* As at the acquisition date, Solar Ship had a share option scheme in terms of which share options over Solar Ship's own shares were granted to its directors and employees. This share option scheme was not exchanged by the Group upon acquisition.

The non-controlling interests (67.42%) in Solar Ship which represented present ownership interests in Solar Ship recognised on acquisition date were measured at the proportion of the fair value of net assets of Solar Ship attributable to the non-controlling interests.

Net cash inflow on acquisition of subsidiaries

	Six months ended 30 June 2015
	HK$'000
Consideration paid in cash	(106,085)
Add: bank balances and cash acquired	93,997
	(12,088)

Solar Ship contributed no revenue and incurred a loss of HK$2,018,000 for the period from the date of acquisition to 30 June 2015.

If the acquisition has been completed on 1 January 2015, total revenue of the Group for the six months ended 30 June 2015 would have been HK$55,537,000 and loss for the six months ended 30 June 2015 would have been HK$77,872,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

19. ACQUISITION OF SUBSIDIARIES (Continued)

Subsidiaries acquired (Continued)

Notes: (Continued)

(c) Fair value measurements of financial instruments

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments	Fair value as at			Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input		
	Acquisition date	30 June 2015	31 December 2014			Acquisition date	30 June 2015	31 December 2014
1) Subscription right of Convertible Securities	31,613,000	28,571,000	–	Level 3	Binomial Option pricing model is adopted and the key inputs are asset price, volatility, risk free rate, exercise price and discount rate in which the perpetual growth rate and discount rate are key inputs for the asset price	Volatility: 33.42% Risk fee rate: 1.93% Discount rate: 19.7% Perpetual growth rate: 2% Exercise price: AUD0.4/share	Volatility: 33.27% Risk fee rate: 1.98% Discount rate: 19.7% Perpetual growth rate: 2% Exercise price: AUD0.4/share	–
2) Swap Right	20,350,000	18,429,000	–	Level 3	Margrabe's Formula is adopted and the key inputs are swap assets price, correlation co-efficient and the volatilities of the swap assets in which the perpetual growth rate and discount rate are key inputs for the swap assets price	Volatility: 33.42% Perpetual growth rate: 2% Discount rate: 19.7% Correlation co-efficient: 0.9	Volatility: 33.27% Perpetual growth rate: 2% Discount rate: 19.7% Correlation co-efficient: 0.9	–
3) Option	24,201,000	N/A (note 1)	–	Level 3	Binomial Option pricing model is adopted and the key inputs are assets price, volatility, risk free rate, exercise price and discount rate in which the perpetual growth rate and discount rate are key inputs for the asset price	Volatility: 33.36% Risk fee rate: 0.63% Discount rate: 26.6% Perpetual growth rate: 2% Exercise price: CAD215/share	N/A (Note: The option is recognised in equity and is not subsequently remeasured.)	–

Note 1: The option is recognised in equity and is not subsequently remeasured.

19. ACQUISITION OF SUBSIDIARIES (Continued)

Subsidiaries acquired (Continued)

Notes: (Continued)

(c) Fair value measurements of financial instruments (Continued)

For all the financial instruments above, slight increases in the perpetual growth rates or volatility used in isolation would result in significant increases in the fair value measurement of the derivatives and vice versa.

20. DISPOSAL OF SUBSIDIARIES

On 26 June 2014, the Group disposed of Miracle True Group which holds a land use right in the PRC to an independent third party for a cash consideration of approximately HK$12,023,000.

Analysis of assets and liabilities over which control was lost:

	26 June 2014 HK$'000
Prepaid lease payment	8,913
Bank balances and cash	22
Net assets disposed of	8,935

Gain on disposal of a subsidiary:

	26 June 2014 HK$'000
Consideration received	12,023
Net assets disposed of	(8,935)
Cumulative exchange differences in respect of the net assets of subsidiary reclassified from other comprehensive income to profit or loss on loss of control of subsidiary	215
Gain on disposal of subsidiaries	3,303

Net Cash inflow on disposal of a subsidiary:

	26 June 2014 HK$'000
Cash consideration	12,023
Less: bank balances and cash disposed of	(22)
	12,001

21. CAPITAL COMMITMENTS

	30 June 2015 HK$'000	31 December 2014 HK$'000
Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of the acquisition of:		
Plant and equipment	**11,350**	18,317
A company	**127,171**	190,380
	138,521	208,697

22. RELATED PARTY TRANSACTIONS

(i) Related party balance is set out in note 15 to the condensed consolidated financial statements.

(ii) During the period, the Group entered into the following transactions with its related companies:

Name of related companies	Nature	Notes	Six months ended 30 June 2015 HK$'000	2014 HK$'000
New Spring Label	Sales of packaging products	(a)	**14,427**	5,696
New Spring Label	Management fee income	(b)	**300**	360
Beautiking Investment Limited	Rental expenses	(c)	**90**	90
New Spring Group Co. Ltd	Rental expenses	(c)	**108**	–
REORIENT	Advisory expenses	(d)	**8,036**	–

Notes:

(a) The sale of packaging products was mutually agreed by the Group and the related company. The outstanding balance included in note 14 is trading in nature with credit period of 60 days.

(b) The management fee income was charged on a monthly fixed amount mutually agreed by the Group and the related company.

(c) The rental expenses were charged on a monthly fixed amount basis as mutually agreed by the Group and the related company. Mr. Ng is a director of these companies.

(d) The advisory expenses represent financial advisory services in respect of the transactions contemplated under the acquisition of Solar Ship and other financial advisory services. The terms of the non-recurring agreement were mutually agreed between the Group and the related company.

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period presentation.

24. EVENTS AFTER THE REPORTING PERIOD

On 22 August 2015, the Company received an additional amount of approximately HK$102,000,000 from the holders of the preferred shares. As a result, the remaining 1,341,666,666 of preferred shares are fully paid and none of the preferred shareholders have exercised the convertible rights as at the date that these consolidated financial statements were authorised for issue.

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the condensed consolidated financial statements approximate their fair values. The fair values of the financial assets and financial liabilities, other than as disclose in note 19(c) have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.