# KUANGCHI SCIENCE LIMITED
# 光 啟 科 學 有 限 公 司

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

## FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

### HIGHLIGHTS

- Group revenue of HK$353,831,000, representing an increase of 345% against the nine months period ended 31 December 2014.
- Group gross profit of HK$225,161,000, representing an increase of 11.2 times against the nine months period ended 31 December 2014.
- Earnings before interest, tax, depreciation, amortisation, share base payment and impairment loss recognised in respect of goodwill of HK$108,239,000. Profit for the year attributable to shareholders of the Company of HK$30,012,000 and earnings per share of 0.65 HK cents.
- In December 2015, the city-level Cloud information platform completed its first global commercial flight, marking a substantial step towards the industrialisation of metamaterial technologies in the in-depth space business segment.
- In December 2015, the first public flight show of KuangChi Martin Jetpack was held successfully in China (“the PRC”).
- In July 2015, the Group launched its first generation of U-1 levitation station, which is a flying apparatus made by the Group by applying its accumulated experience in the design of flying apparatus
- In June 2015, the first-ever Traveller commercial near space platform successfully took off and completed the related commercial testing in Ashburton of New Zealand.

The board of directors (the "Board") of KuangChi Science Limited (the"Company") would like to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2015 together with the comparative figures for the nine months period ended 31 December 2014 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the year ended 31 December 2015*

| | Notes | **01.01.2015 to 31.12.2015** *HK$'000* | 01.04.2014 to 31.12.2014 *HK$'000* |
|---|---|---|---|
| Revenue | 3 | **353,831** | 79,464 |
| Cost of sales | | **(128,670)** | (61,007) |
| Gross profit | | **225,161** | 18,457 |
| Other income | 5 | **126,993** | 8,777 |
| Other gains and losses | 6 | **(45,206)** | (10,922) |
| Impairment loss recognised in respect of goodwill | 13 | **(13,501)** | (34,160) |
| Share of results of an associate | | **(654)** | – |
| Selling and distribution expenses | | **(22,630)** | (2,258) |
| Research and development expenses | | **(72,566)** | (63,968) |
| Administrative expenses | | **(178,946)** | (68,026) |
| Finance costs | 7 | **(8,874)** | (574) |
| Profit (loss) before tax | | **9,777** | (152,674) |
| Income tax expense | 8 | **(14,761)** | (861) |
| Loss for the year/period | 9 | **(4,984)** | (153,535) |
| **Other comprehensive expense** | | | |
| Items that may be reclassified subsequently to profit and loss: | | | |
| Exchange differences on translating foreign operations | | **(62,090)** | (2,047) |
| **Total comprehensive expense for the year/period** | | **(67,074)** | (155,582) |
| Profit (loss) for the year/period attributable to: | | | |
| Shareholders of the Company | | **30,012** | (153,535) |
| Non-controlling interests | | **(34,996)** | – |
| | | **(4,984)** | (153,535) |
| Total comprehensive expense attributable to: | | | |
| Shareholders of the Company | | **(30,618)** | (155,582) |
| Non-controlling interests | | **(36,456)** | – |
| | | **(67,074)** | (155,582) |
| Earnings (loss) per share | 11 | | |
| Basic (HK cents per share) | | **0.65** | (6.56) |
| Diluted (HK cents per share) | | **0.49** | (6.56) |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*At 31 December 2015*

| | *Notes* | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|---|
| ASSETS AND LIABILITIES | | | |
| NON-CURRENT ASSETS | | | |
| Plant and equipment | | **162,691** | 47,633 |
| Other intangible assets | 12 | **109,256** | – |
| Investment properties | | **13,700** | 13,100 |
| Goodwill | 13 | **71,746** | 13,501 |
| Investment in an associate | | **4,290** | – |
| Derivative financial assets | 14 | **51,300** | – |
| Prepaid lease payments | | **91,749** | – |
| Deposit paid for acquisition of a company | | **–** | 133,277 |
| Deposits paid for acquisition of plant and equipment | | **31,474** | 8,071 |
| Pledged deposit | | **143,280** | 187,575 |
| Prepayment for advertising | | **11,940** | – |
| | | **691,426** | 403,157 |
| CURRENT ASSETS | | | |
| Prepaid lease payments | | **2,357** | – |
| Inventories | 15 | **44,037** | 14,365 |
| Trade and other receivables | 16 | **358,061** | 33,411 |
| Income tax recoverable | | **8,339** | – |
| Time deposit | | **125,133** | – |
| Bank balances and cash | | **1,228,556** | 1,485,818 |
| | | **1,766,483** | 1,533,594 |
| CURRENT LIABILITIES | | | |
| Trade and other payables, and deferred revenue | 17 | **120,056** | 75,661 |
| Income tax payable | | **14,589** | 752 |
| Obligations under finance lease | | | |
| – amount due within one year | | **233** | 1,400 |
| Convertible debenture | | **5,569** | – |
| | | **140,447** | 77,813 |
| NET CURRENT ASSETS | | **1,626,036** | 1,455,781 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **2,317,462** | 1,858,938 |

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| NON-CURRENT LIABILITIES | | |
| Long term payable | **–** | 345 |
| Bank borrowings | **142,397** | 140,000 |
| Obligations under finance lease – amount due after one year | **–** | 233 |
| Deferred tax liabilities | **67** | 119 |
| | **142,464** | 140,697 |
| NET ASSETS | **2,174,998** | 1,718,241 |
| CAPITAL AND RESERVES | | |
| Share capital – Ordinary shares | **57,137** | 34,061 |
| Share capital – Preferred shares | **3,757** | 10,733 |
| Reserves | **1,861,237** | 1,668,445 |
| Equity attributable to owners of the Company | **1,922,131** | 1,713,239 |
| Non-controlling interest | **252,867** | 5,002 |
| TOTAL EQUITY | **2,174,998** | 1,718,241 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2015*

### 1. GENERAL

The Company is a limited company incorporated in Bermuda as an exempted company and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company, its immediate holding company is New Horizon Wireless Technology Limited which is incorporated in the British Virgin Islands. Its ultimate holding company is Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership which was established in the People's Republic of China. Its ultimate controlling party is Dr. Liu Ruopeng, who is also an executive director of the Company. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of its business is Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are provision of in-depth space services, manufacturing and trading of paper packaging products and property investment. The consolidated financial statements are presented in Hong Kong dollars for the convenience of the shareholders, as the Company is listed in Hong Kong.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

| | |
|---|---|
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010 – 2012 Cycle |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011 – 2013 Cycle |

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

**New and revised HKFRSs in issue but not yet effective**

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 14 | Regulatory Deferral Accounts[2] |
| HKFRS 15 | Revenue from Contracts with Customers[1] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[3] |
| Amendments to HKAS 1 | Disclosure Initiative[3] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[3] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012- 2014 Cycle[3] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[3] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[3] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception[3] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after a date to be determined

**HKFRS 9 Financial Instruments**

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 that are relevant to the Group based on an assessment of the Group's financial assets and liabilities at 31 December 2015 is as follows:

All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have certain impact on amounts reported in respect of the Group's financial assets (e.g. the impairment on trade and other receivables). It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

**HKFRS 15 Revenue from Contracts with Customers**

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have certain impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Except as described above, the directors of the Company do not expect that the application of the other new and revised HKFRSs in issue but not yet effective will have a material impact on the Group's consolidated financial statements.

## 3. REVENUE

An analysis of the Group's revenue for the year/period is as follows:

| | **01.01.2015 to 31.12.2015** | 01.04.2014 to 31.12.2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue from the sales of the "Cloud" *(note a)* | **258,885** | – |
| Revenue from the sale of printing goods | **74,669** | 69,737 |
| Revenue from in-depth space consultancy services | **19,921** | 9,224 |
| Revenue from rental income *(note b)* | **356** | 503 |
| | **353,831** | 79,464 |

*Notes:*

(a) The "Cloud" is a flying apparatus platform providing integrated services including communication, internet access, big data collection and analysis.

(b) An analysis of the Group's net rental income from investment properties is as follows:

| | **01.01.2015 to 31.12.2015** | 01.04.2014 to 31.12.2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Gross rental income | **356** | 503 |
| Less: Outgoings (included in cost of sales) | **(6)** | (18) |
| Net rental income | **350** | 485 |

## 4. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision-makers (the "CODMs"), for the purpose of resources allocation and performance assessment focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1. In-depth space services – applying the technology developed in respect of the civil near space flying apparatus to sell the related products and to provide various consultancy services regarding in-depth space services.

2. Paper business – manufacturing and trading of paper packaging products, paper gift items and paper promotional materials.

3. Property investment – leasing of property.

**Segment revenue and results**

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

| | In-depth space services | | Paper business | | Property investment | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **01.01.2015 to 31.12.2015** | 01.04.2014 to 31.12.2014 | **01.01.2015 to 31.12.2015** | 01.04.2014 to 31.12.2014 | **01.01.2015 to 31.12.2015** | 01.04.2014 to 31.12.2014 | **01.01.2015 to 31.12.2015** | 01.04.2014 to 31.12.2014 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue | **278,806** | 9,224 | **74,669** | 69,737 | **356** | 503 | **353,831** | 79,464 |
| Segment profit (loss) | **83,341** | (66,537) | **(33,205)** | (36,131) | **923** | 65 | **51,059** | (102,603) |
| Unallocated corporate income | | | | | | | **49,743** | 10,556 |
| Unallocated corporate expenses | | | | | | | **(82,851)** | (60,053) |
| Finance costs | | | | | | | **(8,174)** | (574) |
| Profit (loss) before tax | | | | | | | **9,777** | (152,674) |

Segment profit (loss) represents the profit earned by loss from each segment without allocation of central corporate income and expense, directors' remuneration, gain on disposal of subsidiaries, financial advisory expenses, 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.

**Segment assets and liabilities**

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

*Segment assets*

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| In-depth space services | **818,060** | 164,008 |
| Paper business | **61,341** | 73,509 |
| Property investment | **13,705** | 13,109 |
| Total segment assets | **893,106** | 250,626 |
| Unallocated corporate assets | **1,564,803** | 1,686,125 |
| Consolidated assets | **2,457,909** | 1,936,751 |

*Segment liabilities*

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| In-depth space services | **109,061** | 44,111 |
| Paper business | **33,625** | 21,144 |
| Property investment | **93** | 157 |
| Total segment liabilities | **142,779** | 65,412 |
| Unallocated corporate liabilities | **140,132** | 153,098 |
| Consolidated liabilities | **282,911** | 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, time deposit, bank balances and cash and other assets for corporate use including certain plant and equipment, deposits and other receivables; and

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

**Other segment information**

*Year ended 31 December 2015*

| | **In-depth space services** *HK$'000* | **Paper business** *HK$'000* | **Property investment** *HK$'000* | **Unallocated** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or segment assets: | | | | | |
| Addition to plant and equipment | **121,982** | **8,588** | **–** | **4,238** | **134,808** |
| Depreciation and amortisation | **12,042** | **3,646** | **–** | **404** | **16,092** |
| Gain on changes in fair value of investment properties | **–** | **–** | **(600)** | **–** | **(600)** |
| Gain on disposal of plant and equipment | **–** | **(1,060)** | **–** | **–** | **(1,060)** |
| Write off of plant and equipment | **–** | **2,155** | **–** | **–** | **2,155** |
| Write-down of inventories | **–** | **1,144** | **–** | **–** | **1,144** |
| Impairment loss recognised in respect of goodwill | **–** | **13,501** | **–** | **–** | **13,501** |

*Period ended 31 December 2014*

| | In-depth space services *HK$'000* | Paper business *HK$'000* | Property investment *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or segment assets: | | | | | |
| Addition to plant and equipment | 22,136 | 653 | – | – | 22,789 |
| Depreciation and amortisation | 37 | 3,531 | 48 | 4 | 3,620 |
| Gain on changes in fair value of investment properties | – | – | (108) | – | (108) |
| Gain on changes in fair value of financial assets classified as held for trading | – | – | – | (505) | (505) |
| Loss on disposal of plant and equipment | – | 12 | 198 | – | 210 |
| Write-down of inventories | – | 2,266 | – | – | 2,266 |
| Impairment loss recognised in respect of goodwill | – | 34,160 | – | – | 34,160 |

## 5. OTHER INCOME

| | **01.01.2015 to 31.12.2015** | 01.04.2014 to 31.12.2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sales of scrap materials | **496** | 470 |
| Interest income earned on bank balances and pledged deposit | **49,743** | 6,015 |
| Dividend income | **–** | 87 |
| Management fee income *(note a)* | **300** | 666 |
| Government subsidy *(note b)* | **73,932** | – |
| Write-off of other payables | **–** | 1,074 |
| Sundry income | **2,522** | 465 |
| | **126,993** | 8,777 |

*Notes:*

(a) For the year ended 31 December 2015 and period ended 31 December 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 the subsidiaries of the Company, and Ms. Li Mi Lai, a close family member of Mr. Ng, are controlling shareholders.

(b) During the year ended 31 December 2015, the Group agreed to co-operate with the Dongguan People's Government Office ("the Office") to develop and promote the commercialization of innovative technology in Dongguan city in order to obtain government grant. The main conditions attaching to the government grant include the number of research specialist staff employed and the patents acquired (the "Condition"). As specified in the contract, the government grant will be paid by the Office when the Office was satisfied with an assessment report submitted by the Company summarising the achievements of the Conditions in details. During the year ended 31 December 2015, the Group submitted the assessment report to the Office and then within the same year, they received a government grant amounting to RMB 60,000,000 (equivalent to HK$73,932,000) from the Office.

## 6. OTHER GAINS AND LOSSES

| | **01.01.2015 to 31.12.2015** | 01.04.2014 to 31.12.2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Gain (loss) on disposal of plant and equipment | **1,060** | (210) |
| Write off of plant and equipment | **(2,155)** | – |
| Gain on disposal of subsidiaries | **–** | 3,303 |
| Gain arising on change in fair value of investment properties | **600** | 108 |
| Gain arising on change in fair value of financial assets classified as held for trading investments | **–** | 505 |
| Write-down of inventories | **(1,144)** | (2,266) |
| Impairment loss recognised in respect of investment in an associate | **(6,690)** | – |
| Loss arising on change in fair value of derivative financial assets | **(663)** | – |
| Exchange loss, net | **(36,214)** | (12,362) |
| | **(45,206)** | (10,922) |

## 7. FINANCE COSTS

| | **01.01.2015 to 31.12.2015** | 01.04.2014 to 31.12.2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on: | | |
| Bank borrowings | **8,174** | 415 |
| Interest on convertible debenture | **489** | – |
| Obligations under finance lease | **211** | 159 |
| | **8,874** | 574 |

## 8. INCOME TAX EXPENSE

| | **01.01.2015 to 31.12.2015** | 01.04.2014 to 31.12.2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The charge comprises: | | |
| Current tax | | |
| PRC Enterprise Income Tax | **14,715** | 90 |
| Hong Kong profits tax | **98** | 809 |
| | **14,813** | 899 |
| Deferred taxation | **(52)** | (38) |
| | **14,761** | 861 |

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

PRC subsidiaries are subject to PRC Enterprise Income Tax at rate at 25% for the year (period ended 31 December 2014: 25%), except for a PRC subsidiary established in Qianhai in current year which is subject to PRC Enterprise Income Tax at rate at 15% for the year (period ended 31 December 2014: N/A).

Prima facie tax in New Zealand is calculated at a rate of 28% of the estimated assessable profit for the year ended 31 December 2015 and period ended 31 December 2014. Statutory tax in Canada is calculated at a rate of 15.5% of the estimated assessable profit for the year ended 31 December 2015 and period ended 31 December 2014. No current tax was provided in these jurisdictions for the year ended 31 December 2015 as there were no assessable profit.

## 9. LOSS FOR THE YEAR/PERIOD

| | **01.01.2015 to 31.12.2015** *HK$'000* | 01.04.2014 to 31.12.2014 *HK$'000* |
|---|---|---|
| Loss for the year/period has been arrived at after charging: | | |
| Staff cost, including directors' remuneration and excluding staff cost in research and development expenses: | | |
| Salaries, wages and other benefits | **83,215** | 35,324 |
| Retirement benefits scheme contributions | **5,795** | 1,834 |
| Share-based payments – equity-settled | **64,138** | 18,138 |
| Total staff costs | **153,148** | 55,296 |
| Research and development expenses: | | |
| Consultancy fee *(note)* | **10,030** | 55,000 |
| Salaries and other benefits | **23,646** | 8,280 |
| Amortisation of other intangible assets | **9,142** | – |
| Material consumed | **15,948** | – |
| Retirement benefit scheme contribution | **2,098** | 647 |
| Other | **11,702** | 41 |
| | **72,566** | 63,968 |
| Amortisation of prepaid lease payments | **203** | 36 |
| Auditor's remuneration | **1,380** | 880 |
| Depreciation for plant and equipment | **6,950** | 3,584 |
| Operating lease rental on land and buildings | **6,607** | 1,427 |
| Cost of inventories recognised as an expense | **128,664** | 60,989 |
| Advisory expenses | **8,036** | 30,126 |
| Advertising expense | **14,558** | 107 |

*Note:* For the period ended 31 December 2014, the amount represented consultancy fee incurred and payable to a related company, Kuang-Chi Innovative Technology Limited, in which Dr. Liu Ruopeng, a controlling shareholder and a director of the Company, is a director and a shareholder with significant influence.

## 10. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2015, nor has any dividend been proposed since the end of the reporting period (period ended 31 December 2014: Nil).

## 11. EARNINGS (LOSS) PER SHARE

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

| | **01.01.2015 to 31.12.2015** | 01.04.2014 to 31.12.2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Profit (loss)** | | |
| Profit (loss) for the purpose of basic and diluted earnings (loss) per share (profit (loss) for the year/period attributable to shareholders of the Company) | **30,012** | (153,535) |

| | **01.01.2015 to 31.12.2015** | 01.04.2014 to 31.12.2014 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share | **4,605,995,646** | 2,341,479,429 |
| Effect of dilutive potential ordinary shares: | | |
| Preferred shares | **1,483,405,479** | – |
| Share options of the Company | **11,894,624** | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share | **6,101,295,749** | 2,341,479,429 |

For the year ended 31 December 2015, the computation of diluted earnings per share does not assume the conversion of the Group's outstanding convertible debenture or the exercise of the outstanding share options issued by loss-making subsidiaries of the Group since their assumed conversion or exercise would result in an increase in the earnings per share.

For the period ended 31 December 2014, the computation of diluted loss per share does not assume the conversion of the Company's outstanding preferred shares or the exercise of the Company's outstanding share options since their assumed conversion or exercise would result in a decrease in loss per share.

## 12. OTHER INTANGIBLE ASSETS

| | **Software** | **Technical knowhow and patents** | **Total** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| COST | | | |
| At 1 April 2014, 31 December 2014 and 1 January 2015 | – | – | – |
| Addition arising from acquisition of subsidiaries | 141 | 126,185 | 126,326 |
| Additions | 3,155 | 1,367 | 4,522 |
| Effect of foreign currency exchange differences | (112) | (12,418) | (12,530) |
| At 31 December 2015 | 3,184 | 115,134 | 118,318 |
| ACCUMULATED AMORTISATION AND IMPAIRMENT | | | |
| At 1 April 2014, 31 December 2014 and 1 January 2015 | – | – | – |
| Amortisation expense | 712 | 8,430 | 9,142 |
| Effect of foreign currency exchange differences | (55) | (25) | (80) |
| At 31 December 2015 | 657 | 8,405 | 9,062 |
| CARRYING AMOUNTS | | | |
| At 31 December 2015 | 2,527 | 106,729 | 109,256 |
| 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:

| | |
|---|---|
| Software | 3 – 5 years |
| Technical knowhow and patents | 10 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 in approximately 10 years from the date of registration.

## 13. GOODWILL

| | *HK$'000* |
|---|---|
| COST | |
| At 1 April 2014, 31 December 2014 and 1 January 2015 | 84,054 |
| Addition arising from acquisition of subsidiaries | 71,746 |
| At 31 December 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 year | 13,501 |
| At 31 December 2015 | 84,054 |
| CARRYING VALUES | |
| At 31 December 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 31 December 2015 allocated to these 3 CGUs are as follows:

| | **31 December 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 |

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 the 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 for the year ended 31 December 2015 due to the continuous deterioration of performance (period ended 31 December 2014: HK$34,160,000). The recoverable amount of the CGU, determined by using value-in-use, was HK$23,881,000. The impairment calculation used cash flow projections based on financial budgets approved by the directors of the Company covering a five-year period, with post-tax discount rate of 9.97% (31 December 2014: 9.53%). 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 Group also conducted impairment reviews on goodwill attributable to CGUs operating in development and commercialisation 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 post-tax discount rate of 17.95% for Jetpack CGU and 24.08% 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 ("VIU") 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 post-tax rates that reflect current market assessments of the risks specific to the relevant industry.

The following table illustrates the effect on 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 31 December 2015** | **Favourable change** | **Unfavourable change** |
|---|---|---|
| Perpetual growth rate (current model: 2%) | +1% | –1% |
| Increase/(decrease) in VIU (HK$'000) | 5,809 | (5,179) |
| Discount rate (current model: 17.95%) | – 10% to 16.15% | + 10% to 19.74% |
| Increase/(decrease) in VIU (HK$'000) | 26,210 | (20,170) |

**Aircrafts CGU – Solar Ship Inc. ("Solar Ship")**

| **At 31 December 2015** | **Favourable change** | **Unfavourable change** |
|---|---|---|
| Perpetual growth rate (current model: 2%) | +1% | –1% |
| Increase/(decrease) in VIU (HK$'000) | 3,579 | (3,275) |
| Discount rate (current model: 24.08%) | – 10% to 21.68% | + 10% to 26.49% |
| Increase/(decrease) in VIU (HK$'000) | 19,973 | (15,512) |

## 14. DERIVATIVES FINANCIAL ASSETS

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Derivatives – Swap Right | **20,116** | – |
| Derivative – subscription right of Convertible Securities | **31,184** | – |
| | **51,300** | – |

During the year ended 31 December 2015, the Group entered into an investment agreement with MACL. The agreement contains derivatives. During the year ended 31 December 2015, loss arising on change in fair value of Swap Right and subscription right of Convertible Securities amounted to approximately HK$234,000 and HK$429,000 respectively (2014: nil).

## 15. INVENTORIES

| | 2015<br>*HK$'000* | 2014<br>*HK$'000* |
|---|---|---|
| Raw materials | **5,087** | 3,254 |
| Work in progress | **5,807** | 10,724 |
| Finished goods | **33,143** | 387 |
| | **44,037** | 14,365 |

## 16. TRADE AND OTHER RECEIVABLES

For the year ended 31 December 2015 and the period ended 31 December 2014, the Group allowed an average credit period of 0 to 60 days to its trade customers.

Before accepting any new customer, the Group management would assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed from time to time. No allowances for doubtful debts are recognised against trade receivables at 31 December 2015 and 31 December 2014 based on estimated recoverable amount determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

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.

| | 31.12.2015<br>*HK$'000* | 31.12.2014<br>*HK$'000* |
|---|---|---|
| Trade receivables | | |
| 0 – 30 days | **297,995** | 7,835 |
| 31 – 60 days | **9,637** | 7,056 |
| 61 – 90 days | **1,681** | 3,285 |
| 91 – 180 days | **1,129** | 292 |
| 181 – 365 days | **4** | 146 |
| | **310,446** | 18,614 |
| Deposits and other receivables | **11,994** | 2,523 |
| Interest receivables | **10,906** | 4,237 |
| Loan receivable *(note a)* | **–** | 6,346 |
| Prepayment for advertising | **11,978** | – |
| Other prepayments | **12,737** | 1,691 |
| | **358,061** | 33,411 |

The Group did not hold any collateral over these balances.

As at 31 December 2014, an amount due from a related company amounted to HK$5,167,000 (2015: Nil) is included in the above trade receivables.

*Note:*

(a) Amount represents interest free loan advanced to MACL amounting to AUD1,000,000 (equivalent to approximately HK$6,346,000). During the year ended 31 December 2015, the balance was eliminated on consolidation upon acquisition of MACL.

Aging of trade receivables which are past due but not impaired:

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Overdue by: | | |
| 0 – 30 days | **276,761** | 5,303 |
| 31 – 60 days | **1,962** | 2,625 |
| 61 – 90 days | **82** | 143 |
| 91 – 180 days | **1** | 294 |
| | **278,806** | 8,365 |

Included in the trade receivables overdue by 0-30 days are balances arising from the sales of two "Clouds" amounting to approximately RMB223,500,000 (equivalent to HK$266,859,000). These trade receivable are due from local government related bodies and despite the lack of track record, management consider that these customers have solid financial background. As at the date that these consolidated financial statements were authorised for issue, RMB77,400,000 (equivalent to HK$92,416,000) of such receivables were subsequently settled.

The remaining trade receivables which are past due but not impaired related to customers that had good track records with the Group. There has not been a significant change in the credit quality and the balances were still considered fully recoverable.

## 17. TRADE AND OTHER PAYABLES, AND DEFERRED REVENUE/LONG TERM PAYABLE

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

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade payables | | |
| 0 – 90 days | **16,480** | 9,561 |
| Over 90 days | **3,832** | 3,753 |
| | **20,312** | 13,314 |
| Deferred revenue | **–** | 5,719 |
| Deposit received | **536** | 106 |
| Accrued salary | **15,090** | 10,677 |
| Other payables and accruals *(note a)* | **45,677** | 45,059 |
| Other tax payables | **38,441** | 786 |
| Long term payable *(note b)* | **–** | 345 |
| | **120,056** | 76,006 |
| Presented on the consolidated statement of financial position as: | | |
| Long term payable | **–** | 345 |
| Trade and other payables | **120,056** | 75,661 |
| | **120,056** | 76,006 |

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.

*Notes:*

(a) As at 31 December 2014, included in other payables and accruals is a balance due to a related company of approximately HK$41,463,000 (2015: Nil) mainly in relation to the financial advisory services on the acquisition of MACL performed for the Company. The balance is due to REORIENT Financial Markets Limited ("REORIENT"). REORIENT is ultimately a wholly-owned subsidiary of REORIENT Group Limited ("RGL"), a listed company in the Stock Exchange, and Mr. Ko, an executive director and a shareholder of the Company, is a director and the controlling shareholder of RGL. The amount is unsecured, interest free and repayable on demand and was fully settled during the year ended 31 December 2015.

As at 31 December 2015, balance of other payables and accruals includes approximately HK$13,742,000 (31 December 2014: Nil) due to Mr. Ng. The amount is unsecured, interest-free and repayable on demand.

(b) As at 31 December 2014, amount represents retention money for construction in progress payable over one year but within two years from the end of the reporting period (2015: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

## PERFORMANCE REVIEW AND PROSPECTS

The Group is principally engaged in (1) the research and development and manufacture of in-depth space innovative technology products, and the provision of other innovative technology services (the "In-depth Space Business"); (2) the manufacture and trading of paper packaging products and paper gift items and the printing of paper promotional materials (the "Paper Business"); and (3) the property investment. During the year, the Group recorded a revenue of HK$353,831,000, representing an increase of 345% as compared to last year. Gross profit margin was up from 23% to 64%, earnings before interest, tax, depreciation, amortisation, share based payment and impairment loss recognised in respect of goodwill of HK$108,239,000 and profit before tax increased to HK$9,777,000, achieving a turnaround from loss last year. Basic earnings per Share was 0.65 HK cents for the year ended 31 December 2015.

### The In-depth Space Business

The Group focuses on the research and development of a variety of disruptive space technologies flying at different altitudes, as well as the provision of comprehensive in-depth space services. The Group's products are combined with metamaterial technologies and are widely used for wide-area internet-of-things networking, optical remote sensing and telemetry, internet access, smart big data collection, innovative smart cities, private network and backbone communications, smart observations, emergency rescue, transportation and space tourism, etc. During the year, revenue generated from the In-depth Business was HK$278,806,000, representing an increase of 2,923%. Of the revenue, the Group's fastest commercialised product, namely the Cloud, accounted for HK$258,885,000. Selling and marketing expenses of HK$19,676,000 and research and development expenses of HK$72,566,000 were incurred for in-depth space products. Administrative expenses including staff cost for the In-depth Business was approximately HK$131,135,000. Together with other revenue and other operating costs, segment profit for the year was approximately HK$83,341,000, achieving a turnaround from segment loss last year.

### Significant breakthrough and progress in disruptive in-depth space technology and product commercialisation

The Group is fully devoted in the research and development of a series of disruptive in-depth space technology products, which have made significant breakthrough and progress in commercial application. During the year, the Cloud, a product of space information platform with in-depth space technology applied in smart city industry, was put into commercial operation and underwent the whole operating procedures from test launch, commercial testing, order placement to product delivery. As at 31 December 2015, the Group has signed sales order or strategic cooperation agreement with governments or innovation parks in Guangdong, Guizhou and other provinces in respect of the Cloud information platform, with a total of contracted sales amount of HK$258,885,000.

In December 2015, the city-level Cloud information platform completed its first global commercial flight, marking a substantial step towards the industrialisation of metamaterial technologies in the in-depth space technology sector. The Cloud carries optical remote sensing and wide-area internet-of-things networking with a weight of 400 kg. The optical remote sensing provides high resolution visual images of visible lights and infra-red rays. It is able to run 24/7 and can be applied to sectors such as city road traffic monitoring, inspection of unauthorised building works and wildfire detection. The internet-of-things networking covers areas with a diameter of 60 km and can be applied to the big-data collection and processing of city smart information. The Cloud has successfully established a platform for collection, distribution and processing of city-level three dimensional in-depth information, which can be widely used in sectors such as city planning management, ecological environment monitoring, meteorological forecasts and monitoring, disaster forecasts and assessment, marine life monitoring, wireless emergency communication, regional security and surveillance, and refined resource discovery. The emergency version of the Cloud may also be equipped with aerospace multifunctional high resolution ground monitoring facilities. It has been used for the rescue on scene of a landslide incident occurred in Guangming New District of Shenzhen. As the Cloud is currently the Group's fastest commercialised product, the Group will deepen its market penetration by optimising its application and greater marketing efforts.

In December 2015, the first public flight show of KuangChi Martin Jetpack was held in the PRC. KuangChi Martin Jetpack is the world's first ever commercialised and industrialised single-person stand-up flying apparatus, which uses a petrol engine with two ducted fans at both sides to provide lift. It had been named as one of the 50 best inventions of 2010 by Time Magazine. KuangChi Marin Jetpack is compact in size, easy to operate and has a hover mode. All these features enable it to fly at altitudes up to 1,500 m in the sky with flexibility. It can be applied to sectors such as medical emergency, fire rescue, travel and leisure, and personal transport vehicle. It is designed to have maximum flying speed of 80 km/hr, payload weight up to 120 kg and endurance of 30-45 minutes. On 6 December 2015, KuangChi Ironman Club was established by the Group. On the even date, the Group entered into a letter of intent regarding the sale of 100 jetpacks and 20 training jetpacks. At the Dubai Air show held in November 2015, a memorandum of understanding was entered into with the fire department of Dubai in respect of the sale of 20 jetpacks and 2 training jetpacks. The Group has adopted a series of approaches and measures on the research and development, design and commercial operation of the KuangChi Martin Jetpack product, so as to ensure product delivery. The Group plans to expand its market reach worldwide.

In July 2015, the Group launched its first generation of U-1 levitation station, which is a flying apparatus made by the Group by applying its accumulated experience in the design of flying apparatus, adoption of new energy and development of technologies such as artificial intelligence, as well as its creativity. With the core design concept embodied in the U-1 levitation station, it has great hovering and payload performance with endurance up to 10 hours. The product can be customised in design with dimensions ranging from 5 m to 15 m. It can carry equipment with weights ranging between 10 kg and 100 kg. U-1 levitation station is applicable to city security and defence, public surveillance, broadcasting of sports events, marine applications, boundary patrol, forest preservation and automated ranching, etc. Its advantage of prolonged floating time improves the entire emergency response operation. Going forward, many industries will enjoy new services and experience brought by U-1 levitation station.

In June 2015, the first-ever Traveller commercial near space platform successfully took off and completed the related commercial testing in Ashburton of New Zealand. The Traveller flies at high altitude and has long endurance. It has properties including high payload capacity, high adaptive capability to space environment and high reliability. It is made of novel metamaterials characterised by low-density, high strength, high helium barrier, resistance to UV radiation and anti-ozone erosion. Coupled with advanced flight control strategy, it is able to float in near space for a prolonged period of time. The Traveller commercial near space platform flies 20 km above sea level. It can be equipped with facilities for both air-to-ground and air-to-air real-time high-definition monitoring, relay communication, positioning and navigation, near space scientific experiments, manned space tourism, etc. As proved by the commercial testing, the Traveller commercial near space platform has a high-speed communication coverage reaching 160,000 $km^2$, and a maximum distance of maritime surveillance exceeding 440 km. Its successful first flight signifies KuangChi Science's near space exploration technology has ranked top in the world.

**Product production and sales models for the In-depth Space Business**

The Group's In-depth Space Business adopts a sales-driven production model based on the characteristics of products and the market, under which a production plan is formulated at the beginning of every year according to the orders on hand and annual sales planning, and appropriate adjustments are made for any deliveries pursuant to any additional orders received during the year. Products of the business are characterised with great value, high technological content and high customisation level. In the process of production, the Group develops and designs all systems to be installed in the products based on customers' specifications, and sets production standards for all parts of the products according to the master design program. Once the customised design is finished, the core production process is to be handled by internal professional staff with self-owned production equipment. Some non-core processes will be outsourced.

During the year, the Cloud was the main product of the Group for sales. In view of its high value, leading position in terms of innovation, customised functionalities and complexity in operation and maintenance, the Group uses direct marketing as a means of selling the Cloud. Marketing department is responsible for market development while sales department is responsible for product sales. Product production and delivery are undertaken by Shenzhen KuangChi Space Technology Co., Limited (深圳光啟空間技術有限公司) and

Shenzhen KuangChi Dream Technology Limited (深圳光啟夢想科技有限公司), both are subsidiaries of the Company. They are also responsible for post-sales services including product operation and maintenance as well as application and development.

**Creating a community of global innovation through global acquisitions and consolidation**

During the year, the Group implemented a comprehensive layout for its development in the In-depth Space Business by way of consolidating top-notch companies in upstream and downstream industries, and made three material acquisition and industry consolidation initiatives. The Group attempts to create a KuangChi community of global innovation with an aim to bring future to the present.

In September 2015, the Group acquired SkyX, an Israeli company which is engaged in the research and development of drones. Pursuant to the relevant investment agreement, the Group shall subscribe, in stages, for up to approximately 66.8% of the issued ordinary shares of SkyX. As at 31 December 2015, the Group has subscribed for 42.5% of SkyX's shares. The drone designed by SkyX is a type of unmanned aerial vehicles that support long-haul cruising at high speed. It is equipped with automatic battery charger for higher efficiency in long-haul cruising and lower cost of repair and maintenance. It is the first flying apparatus in the world that has the ability to fly horizontally and take off and land vertically, both without a human pilot onboard, and can be charged contactlessly. After took-off, the flying apparatus is able to change its configuration to immediately transform into a fixed-wing aircraft to cruise at high speed. SkyX drone can fly at a maximum speed of 60-80km/hr for long-haul cruising. Its maximum endurance reaches two hours. The landing system and charging system will then be automatically activated. SkyX drone can be widely used for surveillance, oil and gas pipelines investigation, high voltage cables investigation, and search and rescue operations.

In February 2016, the Group subscribed for the entire convertible securities of Martin Aircraft Company Limited ("MACL") and fully converted them into new ordinary shares of MACL. Also, the Group exercised 90% of options for the allotment and issuance of swap shares. The Group is entitled to exercise the remaining 10% of options before 22 August 2017. The allotment and issuance of new ordinary shares and swap shares have already been completed. The Group currently holds approximately 52.0% of the enlarged issued share capital of MACL. In February 2015, MACL successfully listed on the Australian Securities Exchange. Moving forward, the Group will continue to apply the core technologies to MACL in order to persistently improve its product performance. The Group will also pursue greater efforts on market development.

On 3 April 2015, the Group entered into an investment agreement with Solar Ship Inc. ("Solar Ship") to subscribe, in stages, for up to approximately 54.42% of the issued ordinary shares of Solar Ship. In May 2015, the Group subscribed for approximately 32.58% of the enlarged share capital of Solar Ship and acquired an option to further subscribe for the share capital of Solar Ship up to approximately 54.42% of the then enlarged share capital of Solar Ship. Solar Ship is in the progress of developing a low-cost transport platform that deploys aircrafts with hybrid engines powered by solar energy and electricity. To provide transportation service for remote areas, solar energy, wind energy and helium will be used. The Group will team up with Solar Ship to develop transport platforms, rescue stations in remote areas and advanced communication technologies, so as to tap into the international market.

**Innovative platform building and talent nurturing**

In terms of innovative platform building, the Ministry of Science and Technology of the PRC has commissioned KuangChi to set up a National Key Laboratory specialising in metamaterials and electromagnetic modulation technology. This laboratory focuses on the scientific research on metamaterials and electromagnetic modulation technology and gives technological support to the product and business development of the Group's In-depth Space Business. The innovative platforms built by KuangChi provide favourable environment and strong support for the research and development of source technologies. Moreover, the Ministry of Human Resources and Social Security of the PRC and the National Postdoctoral Management Committee has approved KuangChi to establish a postdoctoral workstation for nurturing talents with postdoctoral qualification in the relevant industry fields.

Management believes that the Group has made significant breakthrough and progress in (1) the research and development of in-depth space technology and product commercialisation; (2) production and sales models; (3) strategic collaboration and resource integration with top-notch companies in upstream and downstream industries; and (4) innovative platform building and talent nurturing.

Looking forward, the Group will intensify its efforts to develop in-depth space technology, products and business for space flying at different altitudes; enhance performance and accelerate global commercialisation of its products; globally consolidate top-notch companies in upstream and downstream industries; and integrate the most advanced innovative space technologies in the world. In doing so, the Group will be able to make prompt response to the prevailing market demand by designing and developing products with tremendous market potential. The Group will also keep endeavouring its best to create better ways of living for all mankind by bringing future to the present.

**Paper Business**

During the year, the revenue contributed by the Paper Business was approximately HK$74,669,000 (nine months period ended 31 December 2014: HK$69,737,000). The increase of revenue was mainly due to twelve months result were covered in current year while comparative figures only represented nine months result. The printing and packaging industry was still affected by the weakening global demand and fierce competition. The management have thoroughly implemented cost control measures and internal budget management with intention to improve the performance of the Paper Business.

With reference to the valuation reports issued by an independent external valuer, the directors have made a further impairment loss of approximately HK$13,501,000 (nine months period ended 31 December 2014: HK$34,160,000) in respect of the carrying amount of the goodwill, which was arising from the acquisition of the Paper Business during the year ended 31 March 2013. As a result, the segment loss of approximately HK$33,205,000 was recorded (nine months period ended 31 December 2014: HK$36,131,000).

Although there is slow recovery in some of the regions, e.g. U.S.A., the world economy still faces a prolonged year of sluggish growth. The Euro zone is still suffering from high unemployment rate and low inflation as well as the expectation of a slower growth in the PRC. Management will continue to seek for more stringent cost control measures to keep the profitability level, including but not limiting to streamline and simplify the production process or outsource certain processes to sub-contractors. Management expects the printing and packaging industry will most likely remain weak and unpredictable in the coming future.

Despite the difficulties in the current operating environment for the Paper Business, the Group will also continue to improve the efficiency and output quality, maintain good relationships with existing customers and at the same time will promote its products and services to new customers to broaden its customer base.

**Property Investment**

The Group holds the properties for investment purpose with a view that it can establish recurring rental income, while capture any possible future capital appreciation. During the year, leasing income of approximately HK$356,000 (nine months period ended 31 December 2014: HK$503,000) was recognised. During the nine months period ended 31 December 2014, the Group has entered into sales and purchase agreements with independent third parties to dispose an investment property. The disposal was completed in November 2014. A gain on change in fair value of investment property of approximately HK$600,000 is recognised in the year (nine months period ended 31 December 2014: HK$108,000). As a result, a segment profit of approximately HK$923,000 incurred (year ended 31 March 2014: HK$65,000).

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.

## Other Results

During the year, the Group has acquired the land use right in Dongguan City to build a technology research centre to support the In-depth Space Business. During the year, the Group also placed fixed deposits and pledged deposits, interest income earned on the deposits was approximately HK$49,743,000 (period ended 31 December 2014: HK$6,015,000).

During the year, the Company has granted replacement and new share options to directors and employees of the Group, the relevant share-based payment expenses for the year was approximately HK$59,792,000 (period ended 31 December 2014: HK$18,138,000). During the year, the Company has recognised the financial advisory fee in respect of the acquisition of Solar Ship Inc. and their services for approximately HK$8,036,000. Details of the acquisition and the relevant financial advisory fee were disclosed in the announcement of the Company dated 7 April 2015. Net exchange loss of approximately HK$36,214,000 was recognised during the year (period ended 31 December 2014: HK$12,362,000) and it was mainly due to the significant depreciation of RMB to HKD in 2015.

## 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). During the year ended 31 December 2015, the Company received approximately HK$204,000,000 from the Subscribers to pay off the remaining balance of the partially paid 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.

On 15 September 2015 and 24 December 2015, the Company received notices from New Horizon and REORIENT Global Limited (one of the Subscribers) to convert all of their respective Tranche B Preferred Shares into 912,333,333 and 53,666,667 Ordinary Shares of the Company respectively. Following conversion of the above Tranche B Preferred Shares, the Company has 375,666,666 fully paid Tranche B Preferred Shares outstanding.

## Use of proceeds

The total proceeds from the fund raising activities, including the subscriptions completed on 22 August 2014 and 29 September 2014 respectively, during the nine months period ended 31 December 2014 were approximately HK$1,888,401,000, 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 year:

| **Intended use of proceeds** | **Unutilised proceeds as at 1 January 2015** *HK$'000* | **Utilised during the year** *HK$'000* | **Unutilised proceeds as at 31 December 2015** *HK$'000* |
|---|---|---|---|
| Acquisition of land site and construction of manufacturing facilities and expansion of production capacity for the In-depth Space Business | 1,059,140 | (255,531) | 803,609 |
| Research and development for products and expenses for the In-depth Space Business | 226,032 | (72,566) | 153,466 |
| General working capital | 197,892 | (197,187) | 705 |
| Global merger and acquisition of In-depth space services industry and products | 160,410 | (117,719) | 42,691 |
| Less: Proceeds not yet received | (204,000) | 204,000 | – |
| | 1,439,474 | (439,003) | 1,000,471 |

During the year, approximately HK$625,117,000 was used as specified in the annual report of year 2014, and approximately HK$204,000,000 proceeds was received from the subscribers of the preferred A shares and preferred B shares. During the year, the Group has paid approximately HK$255,531,000 to acquire a land use right and purchase additional plant and equipment for the In-depth Space Business, approximately HK$72,566,000 on research and development costs and approximately HK$197,187,000 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 and HK$11,634,000 was used to purchase preferred shares of SkyX Limited.

The unused proceeds up to 31 December 2015 were approximately HK$1,000,471,000. The management will use the remaining proceeds as intended including for the use for merger and acquisition as discussed above.

The management closely monitors the cash level of the Company to balance the return on capital and the liquidity level of the Group. Since 31 December 2015, the Group has further paid for approximately AUD23,000,000 (approximately HK$122,082,000) for the acquisition of MACL. The Group will subscribe for the new shares of Zhejiang Longsheng Automotive Parts Stock Limited Corporation with consideration of approximately RMB300,000,000 (equivalent to approximately HK$358,000,000), and the proposed acquisition of Solar Ship Inc. would require about additional CAD25,000,000 (equivalent to approximately HK$156,158,000). The acquisition of SkyX Limited will require for approximately additional US$3,500,000 (equivalent to approximately HK$27,125,000).

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, the total shareholders' funds of the Group amounted to approximately HK$2,174,998,000 (31 December 2014: HK$1,718,241,000), the total assets of approximately HK$2,457,909,000 (31 December 2014: HK$1,936,751,000) and the total liabilities of approximately HK$282,911,000 (31 December 2014: HK$218,510,000).

As at 31 December 2015, the Group had bank balances and cash of approximately HK$1,228,556,000 (31 December 2014: HK$1,485,818,000), and the Group had pledged deposits of approximately HK$143,280,000 (31 December 2014: 187,575,000). The gearing ratio as of 31 December 2015, defined as the percentage of the total interest bearing debt, including bank borrowings of approximately HK$142,397,000 (31 December 2014: HK$140,000,000), convertible debenture of approximately HK$5,569,000 (31 December 2014: Nil) and obligations under finance leases of approximately HK$233,000 (31 December 2014: HK$1,633,000), to net asset value, was approximately 6.81% (31 December 2014: 8.24%).

The Group's business operations and investments are in PRC, Hong Kong and New Zealand. Bank Balances and cash as at 31 December 2015 denominated in local currency and foreign currencies mainly included HK$64,651,000, RMB601,286,000, NZD12,553,000, USD81,397,000 and CAD3,003,000 respectively. All the outstanding balances of borrowings and obligations under finance leases are denominated in HKD. Other than described above, most of the assets, liabilities and transactions of the Group are primarily denominated in HKD and RMB. The Group has not entered into any instruments on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

## INVESTMENT POSITION AND PLANNING

### Acquisition of MACL

On 19 December 2014, the Company and MACL entered into an investment agreement ("MACL 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$12,371,000) and will hold 51% of interest. At any time prior to 22 August 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 MACL Investment Agreement, as at 31 December 2014, the Company paid an interest bearing deposit on escrow ("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. The HKCo was incorporated on 12 March 2015 and both the Company and MACL has contributed AUD2,000,000 into the HKCo (approximately HK$24,742,000 in total). As at 31 December 2015, the Company had the right to acquire but had not acquired the Convertible Securities and had the right to exercise but had 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.

**Acquisition of Solar Ship Inc.**

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 CAD17,000,000. Also on the same day, the Company and Solar Ship entered into an option agreement, pursuant to which the Company was granted the option ("Option") exercisable by the Company during the period from the completion of Solar Ship Conditions to 15 October 2016 (Toronto time) to subscribe for 116,279 additional common shares in Solar Ship for consideration of CAD25,000,000 (equivalent to approximately HK$156,158,000), which will result in the Company holding approximately 54.42% of the outstanding common shares in Solar Ship. The dilution effect of the convertible debenture and outstanding share options issued by Solar Ship is insignificant to the Company's shareholding in Solar Ship.

On 29 May 2015, the Solar Ship Conditions were fulfilled. As a result, the Company subscribed for 79,070 new common shares in Solar Ship at the subscription money of CAD17,000,000 (equivalent to approximately HK$106,085,000), representing 32.58% of the outstanding common shares of Solar Ship. 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 in-depth Space services.

**Investment in SkyX**

On 21 September 2015, the Company and SkyX Limited ("SkyX") entered into a preferred shares purchase agreement ("PSP Agreement"), pursuant to which the Company agreed to acquire 738,916 preferred share of SkyX for consideration amounted to US$1,500,000 and upon SkyX fulfilling certain conditions ("SkyX Conditions"), the Company will further acquire an additional 1,268,634 preferred shares of SkyX for an additional cash consideration amounting to US$3,500,000. In addition, immediately following the satisfaction of all SkyX condition and ending 24 months thereafter, the Company shall have the right to purchase all remaining issued and outstanding shares of SkyX at a consideration equal to a valuation of SkyX at that time ("Buyout Option"). Furthermore, the Company and the founding shareholder of SkyX ("Original Shareholder") shall each have an option, pursuant to which the Original Shareholder may require the Company to purchase, or the Company may require the Original Shareholder to sell certain shares of SkyX (as adjusted for any share split, reverse share split, issuance of bonus shares, reclassification or similar transaction) held by the Original Shareholder upon fulfilling of the SkyX Conditions. The directors of the Company are of the opinion that the derivatives contained in the PSP Agreement is insignificant as at 31 December 2015 as SkyX is only at the start-up phase and the future cash flows cannot be reliably measured. Furthermore, the fair value of the Buyout Option is insignificant as the exercise price will be based on the SkyX valution at the date.

The Company currently holds 738,916 preferred shares of SkyX which are currently convertible into 738,916 ordinary shares of SkyX, subject to anti-dilution adjustments. All preferred shares of SkyX acquired to be acquired by the Company pursuant to the PSP Agreement will be convertible into ordinary shares of SkyX upon subscription. The Company will hold 42.5% of the ordinary share capital of SkyX when all the 738,916 preferred shares are converted based on the number of ordinary shares in issue as at 31 December 2015. Upon the Company's purchase and conversion of the additional 1,268,634 preferred shares of SkyX upon Satisfaction of Skyx Conditions, the Company's shareholding in SkyX will be approximately 66.8%, based on the number of ordinary shares in issue as at 31 December 2015.

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

## EVENT AFTER THE REPORTING YEAR

On 29 February 2016, the Company subscribed for the entire convertible securities in MACL and fully converted them into new ordinary shares of MACL for AUD23,020,000 (equivalent to HK$129,988,000). In addition, the Company also exercised 90% of the option for the allotment and issue of Swap Shares. The Company has the right to exercise the remaining 10% of the option prior to 22 August 2017.

After the allotment and issuance of new ordinary shares and Swap Shares of MACL, the Company holds approximately 52% of the enlarged issued share capital of MACL which, together with HKCo, continues to remain as a subsidiary of the Group. There is no net cash flows impact on the Group arising from these equity transactions.

## CHARGES ON THE GROUP'S ASSETS

As at 31 December 2015, certain assets of the Group were pledged to secure banking facilities granted to the Group and obligation under finance lease as follows:

| | **31 December 2015** *HK$'000* | 31 December 2014 *HK$'000* |
|---|---|---|
| Plant and equipment under finance lease | **4,038** | 4,543 |
| Pledged deposit | **143,280** | 187,575 |
| | **147,318** | 192,118 |

## CONTINGENT LIABILITIES

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

## CAPITAL COMMITMENT

| | **31 December 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 | **13,108** | 18,317 |
| A company | **–** | 190,380 |
| | **13,108** | 208,697 |

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2015, the Group had approximately 980 employees. The Group provides competitive remuneration packages to employees with the share option scheme and the restricted shares award scheme. The Group also provides attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

## 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 effective internal control and accountability to all shareholders.

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

The Company has complied with the CG Code during the year under review.

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

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

## DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2015, nor has any dividend been proposed for the year ended 31 December 2015 (period ended 31 December 2014: Nil).

## COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code") as its model code for securities transactions by Directors. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code except Dr. Liu Jun has not comply with Model Code 3(a)(ii) during the year ended 31 December 2015.

## REVIEW BY AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors of the Company. The Audit Committee has adopted terms of reference which are in line with the CG Code. The Audit Committee has reviewed the audited results for the year ended 31 December 2015 and agreed with the accounting treatment adopted. The Audit Committee is satisfied with the Group's internal control procedure and financial reporting disclosures.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2015 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.