KUANGCHI SCIENCE LIMITED
光 啟 科 學 有 限 公 司

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

The board of directors (the "Board") of KuangChi Science Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2015 (the "Period") together with the comparative figures for the same period in 2014 (the "Comparative Period") as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2015

		Six months ended 30 June	
		2015	2014
	NOTES	***HK$'000***	*HK$'000*
		(Unaudited)	(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)

	NOTE	Six months ended 30 June 2015 HK$'000 (Unaudited)	2014 HK$'000 (Unaudited)
Other comprehensive (loss) 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		**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

	NOTES	30 June 2015 HK$'000 (Unaudited)	31 December 2014 HK$'000 (Audited)
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
ASSETS AND LIABILITIES		**282,903**	140,697
NET ASSETS		**2,012,563**	1,718,241
CAPITAL AND RESERVES			
Share capital – Ordinary shares		**47,477**	34,061
Share capital – Preferred shares		**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 interest		**265,568**	5,002
TOTAL EQUITY		**2,012,563**	1,718,241

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	–	101,966	–	–	–	–	–	–	–	101,966	–	–	–	–	101,966
Issue of ordinary shares upon conversion of preferred shares	13,416	(107,332)	93,916	–	–	–	–	–	–	–	–	–	–	–	–
Acquisition of subsidiaries (note 18)	–	–	–	–	–	–	(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

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 18(b).

(e) The balance of share-based payment reserves of subsidiaries represent share options granted by subsidiaries as set out in note 18(a) and 18(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 18(b).

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.

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;

- 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.

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.

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 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.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is 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.

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	31 December 2014
	HK$'000	*HK$'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, 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	**300**	360
Sundry income	**225**	140
	31,192	1,418

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:		
Current tax		
Hong Kong Profits Tax – Current tax	**186**	45
	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 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 director 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:		
Salaries and other benefits	**1,993**	975
Share-based payments	**9,278**	–
	11,271	975
	49,420	5,351
Amortisation for intangible assets	**2,837**	–
Depreciation for plant and equipment	**2,431**	2,375
Legal fees and financial advisory fee	**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, 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 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 18.

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 and 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.

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

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

11. INTANGIBLE ASSET

Amount mainly represents patents acquired through acquisition of subsidiaries as set out in note 18. The net carrying amount will be amortised over the remaining useful lives of range from 10 to 16 years.

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 18)*	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 VALUES	
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 group 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 business	**32,364**	-
Development and commercialisation of solar powered aircrafts business	**39,382**	-
	71,746	13,501

13. DERIVATIVES FINANCIAL ASSETS

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

During the six months ended 30 June 2015, the Group entered into an investment agreement with Martin Aircraft Company Limited ("MACL") as set out in note 18a. The agreement contains derivatives. During the six months ended 30 June 2015, loss arising on changes in fair value of Swap Right and subscription right of Convertible Securities amounted to HK$1,921,000 and HK$3,043,000 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	31 December 2014
	HK$'000	*HK$'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 his spouse controlling shareholders while Mr. Ng is a director of certain subsidiaries of the Group. 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 18a). The entire balance was eliminated at the consolidation as at 30 June 2015 as MACL became a subsidiary of the Group on 23 February 2015.

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

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	31 December 2014
	HK$'000	*HK$'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)*	**46,454**	56,522
	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.

Notes:

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 Inc. ("Solar Ship") (31 December 2014: MACL). The balance is due to REORIENT. 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.

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 18(b). The convertible debenture outstanding is denominated in Canadian Dollars ("CAD") with a par value of CAD1,000,000 (equivalent to approximately HK$6,246,000). The convertible debenture bears an interest of 12% per annum and it will mature in November 2015. The convertible debenture holders are entitled to convert the convertible debenture into common shares of Solar Ship Inc. at a price of CAD100 per share.

The convertible debenture consists of both liability and equity components. The equity component is presented under the 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	31 December 2014
	HK$'000	*HK$'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 borrowing 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. 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		Proportion of voting power held by the Company		Date of acquisition	Proportion of shares acquired	Consideration paid
					30 June 2015	31 December 2014	30 June 2015	31 December 2014			*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%	135,200
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%	106,085
											241,285

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.

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 and as at 30 June 2015. 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
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.

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)
	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 interest 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.

(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 option 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
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.

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)
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 interest 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$83,043,000. 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.

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 is available.

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 highspeed 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.

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 a 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.

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.

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.

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.

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 announcement.

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, NZD23,319,000, CAD13,431,000 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 on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

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	Proportion of ownership interest held by the Company Indirectly at 30 June 2015
							HK$'000	
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 18 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.

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 announcement, the subscription is still conditional upon the approval by the China Securities Regulatory Commission.

Saved as disclosed above and disclosed herein this announcement, the Group did not have any other significant investment and there are no other material acquisition or disposal of subsidiaries and associated company during the Period.

CHARGES ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES

As at 30 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

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Practices

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

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 reviews its corporate governance practices periodically to ensure these continue meeting the requirements of the CG Code.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the directors. All directors have confirmed, followed by specific enquiry procedures by the Company, that they had complied with the requirements as set out in the Model Code throughout the Period.

Purchase, Sale or Redemption of Listed Securities

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

Review of Interim Results

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

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

Hong Kong, 26 August 2015

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