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KUANGCHI SCIENCE LIMITED

光啟科學有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)

SUBSCRIPTIONS OF NEW ORDINARY SHARES UNDER GENERAL MANDATE AND RESUMPTION OF TRADING

THE SUBSCRIPTIONS

On 12 September 2014 (after trading hours), 14 September 2014 and 15 September 2014, the Company entered into the Subscription Agreements with the Subscribers pursuant to which the Company agreed to allot and issue and each of the Subscribers has conditionally agreed to subscribe for an aggregate of the 289,900,000 Subscription Shares at the Subscription Price of HK\$5.386 per Subscription Share. The 289,900,000 Subscription Shares represent (i) approximately 9.30% of the existing Ordinary Shares; (ii) approximately 8.51% of the issued Ordinary Shares as enlarged by the allotment and issue of the Subscription Shares; and (iii) approximately 4.76% of the issued Ordinary Shares as enlarged by the allotment and issue of the Subscription Shares and the conversion in full of the Preferred Shares.

The aggregate Subscription Price amounts to approximately HK\$1,561 million. The Subscription Shares will be issued under the General Mandate.

RESUMPTION OF TRADING

At the request of the Company, trading in the Ordinary Shares has been halted with effect from 9:00 a.m. on 15 September 2014 pending the release of this announcement. An application has been made by the Company for the resumption of trading in the Ordinary Shares with effect from 9:00 a.m. on 16 September 2014.

THE SUBSCRIPTION AGREEMENTS

On 12 September 2014 (after trading hours), 14 September 2014 and 15 September 2014, the Company entered into the Subscription Agreements with the Subscribers.

The Subscription Agreements were negotiated directly between the Company and the Subscribers.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, each of the Subscribers and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons. Each of the Subscribers is third party independent of the other Subscribers and their respective associates.

10 of the Subscribers were interested in an aggregate of 14,783,000 Ordinary Shares, representing approximately 0.47% of the existing Ordinary Shares as at the date of this announcement. The remaining Subscribers did not have any interests in any Ordinary Shares as at the date of this announcement. Immediately upon Completion, none of the Subscribers will become a substantial shareholder of the Company.

Save for the parties who entered into Subscription Agreements as Subscribers, the date of the Subscription Agreements, the number of Subscription Shares and the aggregate Subscription Price payable, all other terms of the Subscription Agreements are the same among all of the Subscription Agreements.

The Subscription Shares

The 289,900,000 Subscription Shares represent (i) approximately 9.30% of the existing Ordinary Shares; (ii) approximately 8.51% of the issued Ordinary Shares as enlarged by the allotment and issue of the Subscription Shares; and (iii) approximately 4.76% of the issued Ordinary Shares as enlarged by the allotment and issue of the Subscription Shares and the conversion in full of the Preferred Shares. The aggregate nominal value of the Subscription Shares is HK\$2,899,000.

The Subscription Price

The Subscription Price of HK\$5.386 per Subscription Share represents (i) a discount of approximately 5.34% to the closing price of HK\$5.69 per Ordinary Share as quoted on the Stock Exchange on 12 September 2014, being the last day on which the Ordinary Shares were traded on the Stock Exchange prior to the date of this announcement; and (ii) a discount of approximately 7.01% to the average closing price of HK\$5.792 per Ordinary Share for the last five consecutive trading days up to and including 11 September 2014, being the trading day immediately preceding the last day on which the Ordinary Shares were traded on the Stock Exchange prior to the date of this announcement.

The net Subscription Price, after deduction of relevant expenses, is estimated to be approximately HK\$5.385 per Subscription Share.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers, taking into account of, among others, the current market conditions, the recent trading price and liquidity of the Ordinary Shares. The Directors consider that the Subscription Price is fair and reasonable.

The aggregate Subscription Price for all 289,900,000 Subscription Shares of approximately HK\$1,561 million shall be paid by the Subscribers within three Business Days after the date of the Subscription Agreements (or such other date as may be agreed by the Company in writing) as deposit. Such amount shall be refunded by the Company in the event the conditional precedent to the Subscriptions is not fulfilled.

Mandate for the issue of the Subscription Shares

The Subscription Shares will be allotted and issued under the General Mandate. The maximum number of Ordinary Shares that can be issued under the General Mandate is 289,900,225 Ordinary Shares. As at the date of this announcement, no Ordinary Shares have been issued by the Company pursuant to the General Mandate. The allotment and issue of the Subscription Shares are not subject to any Shareholders' approval.

Ranking

The Subscription Shares will rank *pari passu* in all respects with the Ordinary Shares in issue as at the date of allotment and issue of the Subscription Shares.

Listing application

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

Condition precedent to Completion

Completion of the Subscriptions shall be conditional upon the listing of and permission to deal in the Subscription Shares being granted by the Listing Committee of the Stock Exchange.

If the condition is not satisfied on or before 31 October 2014 (or such later date as may be agreed by the Company), the Subscription Agreements and all rights and obligations hereunder will cease and terminate and be subject to refund of deposit, neither of the Subscribers and the Company will have any claim against one another for costs, damages, compensation or otherwise except for, among others, antecedent breach of provisions of the Subscription Agreements. In such event, the Company shall refund the Subscription Price already paid to the Subscribers within seven Business Days without interests.

The Subscription Agreements are not inter-conditional to each other.

Completion

Completion of the Subscriptions will take place on the third Business Day after the condition of the Subscriptions is fulfilled (or such other date as may be agreed by the Company in writing).

REASONS FOR AND BENEFITS OF THE SUBSCRIPTIONS AND USE OF PROCEEDS

The Group is principally engaged in (i) the near space and other innovative technology business; (ii) the manufacture and sale of paper packaging products and paper gift items and the printing of paper promotional materials; and (iii) property investments.

As set out in the circular of the Company dated 29 July 2014 (the “Subscription Circular”), the Company intended to develop a new business segment relating to the near space and other innovative technology industry in parallel to its existing business. The Directors were of the view that the near space and other innovative technology industry offered attractive potential growth and return. Under the Outsourcing Technology Development Agreement (details of which have been set out in the Subscription Circular), the Group has appointed Kuang-Chi Innovative Technology Limited (“Kuang-Chi”) to research and develop a civil near space flying apparatus. The Group has recently been informed by Kuang-Chi that the progress of the research and development work is ahead of the milestones under the Outsourcing Technology Development Agreement. The total net proceeds of approximately HK\$327 million under the subscription of new Ordinary Shares and new Preferred Shares have been earmarked for specific use (details of which have been set out in the Subscription Circular). As at the date of this announcement, net proceeds of approximately HK\$123 million has been received. The remaining net proceeds of approximately HK\$204 million shall be receivable according to the terms and conditions set out in the Subscription Circular.

As set out in the Subscription Circular, in the event that the research and development work under the Outsourcing Technology Development Agreement progressed ahead of the agreed timeline, it is possible that the commercialisation of the civil near space flying apparatus will be moved forward and that the Company will consider conducting further fund raising activities to fund any business and operational needs as and when necessary.

As set out in the announcements of the Company dated 11 September 2014 relating to the cooperation agreements and the strategic cooperation framework agreement, the Group has initially established its cooperation relationship with the Weather Department of Shenzhen City and Pengxin International Mining Company Limited. Under these agreements, the Group will apply the technology developed in respect of the civil near space flying apparatus to provide various novel space services, including but not limited to telecommunication, mineral exploration, meteorological observations and surveillance, space tourism and disaster detection, etc.

The Directors consider that it would be necessary for and beneficial to the Company to raise additional funds (i) to accelerate the Group’s development plan; and (ii) for the development of the novel space services derived from the application of the civil near space flying apparatus.

The gross proceeds and the net proceeds from the Subscriptions are approximately HK\$1,561 million and approximately HK\$1,561 million respectively.

The net proceeds are intended to be applied as follows:

- as to approximately HK\$890 million for construction of facilities and expansion of production capacity relating to near space and other innovative technology business;
- as to approximately HK\$480 million for the research and development of products relating to novel space services; and
- as to the remaining balance to fund future expansion of the Group's businesses and for general working capital of the Group.

EFFECT ON SHAREHOLDING STRUCTURE

The Company had 3,116,167,793 Ordinary Shares in issue as at the date of this announcement. The table below is for illustrative purposes only and sets out the shareholding structure of the Company (i) as at the date of this announcement; (ii) upon allotment and issue of the Subscription Shares; and (iii) upon allotment and issue of the Subscription Shares and conversion in full of the Preferred Shares, assuming no other Ordinary Shares will be issued between the date of this announcement and Completion:

	As at the date of this announcement		Immediately after completion of the Subscriptions and before the conversion in full of the Preferred Shares (Note 4)		Immediately after completion of the Subscriptions and after the conversion in full of the Preferred Shares (Note 4)	
	Number of Ordinary Shares	%	Number of Ordinary Shares	%	Number of Ordinary Shares	%
New Horizon Wireless Technology Limited (Note 1)	1,133,333,334	36.37%	1,133,333,334	33.27%	2,958,000,000	48.58%
World Treasure Global Limited (Note 2)	638,981,013	20.51%	638,981,013	18.76%	638,981,013	10.49%
Starbliss Holdings Limited (Note 3)	155,555,556	4.99%	155,555,556	4.57%	406,000,000	6.67%
REORIENT Global Limited (Note 3)	66,666,666	2.14%	66,666,666	1.96%	174,000,000	2.86%
REORIENT Financial Markets Limited (Note 3)	<u>1</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>1</u>	<u>—</u>
<i>Subtotal</i>	1,994,536,570	64.01%	1,994,536,570	58.56%	4,176,981,014	68.60%
Public shareholders						
The Subscribers	14,783,000	0.47%	304,683,000	8.94%	304,683,000	5.00%
Other existing public shareholders	<u>1,106,848,223</u>	<u>35.52%</u>	<u>1,106,848,223</u>	<u>32.50%</u>	<u>1,607,737,111</u>	<u>26.40%</u>
<i>Subtotal</i>	<u>1,121,631,223</u>	<u>35.99%</u>	<u>1,411,531,223</u>	<u>41.44%</u>	<u>1,912,420,111</u>	<u>31.40%</u>
Total	<u>3,116,167,793</u>	<u>100.00%</u>	<u>3,406,067,793</u>	<u>100.00%</u>	<u>6,089,401,125</u>	<u>100.00%</u>

Notes:

1. New Horizon Wireless Technology Limited is owned as to 51% by Kuang-Chi and as to 49% by Shenzhen Kuang-Chi Hezhong Technology Limited. Kuang-Chi is a subsidiary of Shenzhen Dapeng Kuang-Chi Technology Limited, which is in turn a subsidiary of Shenzhen Dapeng Kuang-Chi Lianzhong Technology Limited Liability Partnership of which Dr. Liu Ruopeng is the controlling shareholder, and Dr. Liu Ruopeng is the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology Limited. Dr. Liu Ruopeng is the chairman of the Company and an executive Director.
2. World Treasure Global Limited is wholly and beneficially owned by Mr. Wong Hin Shek, a former executive Director.
3. Mr. Ko Chun Shun, Johnson is an executive Director. Starbliss Holdings Limited is wholly and beneficially owned by Mr. Ko Chun Shun, Johnson. Both REORIENT Global Limited and REORIENT Financial Markets Limited are wholly owned by REORIENT Group Limited, of which Mr. Ko Chun Shun, Johnson is the controlling shareholder and an executive director.
4. The conversion of the Preferred Shares to the Ordinary Shares is subject to the Preferred Shares having been fully paid up.

The Company had outstanding share options which entitle the holders thereof to subscribe for 67,747,000 Ordinary Shares as at the date of this announcement.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Set out below is the equity fund-raising activity of the Company in the past twelve months immediately preceding the date of this announcement:

Date of announcement	Description	Net amount raised	Intended use of proceeds as announced	Actual use of proceeds
13 June 2014	Subscription of new Ordinary Shares and new Preferred Shares	HK\$327 million (approximately HK\$123 million has been received and the remaining net proceeds of approximately HK\$204 million is receivable according to the terms and conditions set out in the Subscription Circular)	Development of the near space and other innovative technology business, details of which have been set out in the Subscription Circular	Net proceeds of approximately HK\$123 million has not been utilised

RESUMPTION OF TRADING

At the request of the Company, trading in the Ordinary Shares has been halted with effect from 9:00 a.m. on 15 September 2014 pending the release of this announcement. An application has been made by the Company for the resumption of trading in the Ordinary Shares with effect from 9:00 a.m. on 16 September 2014.

Completion of the Subscriptions is subject to the satisfaction of the condition precedent to the Subscription Agreements. As the Subscriptions may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Ordinary Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“associate(s)”	has the same meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than Saturday or Sunday or public holiday and days on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are open for general banking business
“Company”	KuangChi Science Limited (stock code: 439), a company incorporated in Bermuda with limited liability and the issued Ordinary Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Subscriptions in accordance with the terms and conditions of the Subscription Agreements
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“controlling shareholder”	has the same meaning as ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“General Mandate”	the general mandate granted to the Directors to allot and issue up to 289,900,225 new Ordinary Shares at the annual general meeting of the Company held on 6 August 2013
“Group”	the Company and its subsidiaries

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Ordinary Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“PRC”	the People’s Republic of China (which for the purpose of the Subscription Agreements, excludes Hong Kong, the Macau Special Administrative Region and Taiwan)
“Preferred Share(s)”	the convertible preferred share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Ordinary Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	26 individuals, corporations and other investors collectively who/which entered into the Subscription Agreements with the Company
“Subscriptions”	subscriptions of an aggregate of the 289,000,000 Subscription Shares under the Subscription Agreements
“Subscription Agreements”	15 subscription agreements, 7 subscription agreements and 4 subscription agreements collectively entered into between the Company and each of the 26 Subscribers dated 12 September 2014, 14 September 2014 and 15 September 2014 respectively in respect of the subscriptions of new Ordinary Shares by each of the Subscribers
“Subscription Price”	HK\$5.386 per Subscription Share
“Subscription Shares”	289,900,000 new Ordinary Shares, in aggregate, to be subscribed by the Subscribers
“substantial shareholder”	has the same meaning as ascribed to it under the Listing Rules

“%”

percentage

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

Hong Kong, 15 September 2014

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