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 NINE MONTHS ENDED 31 DECEMBER 2014

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 period from 1 April 2014 to 31 December 2014 together with the comparative figures for the year ended 31 March 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the period from 1 April 2014 to 31 December 2014

	Notes	**01.04.2014 to 31.12.2014** ***HK$'000***	01.04.2013 to 31.03.2014 *HK$'000* (restated)
Revenue	3	**79,464**	113,433
Cost of sales		**(61,007)**	(93,274)
Gross profit		**18,457**	20,159
Other income	5	**8,777**	1,868
Other gains and losses	6	**(10,922)**	(2,445)
Impairment loss recognised in respect of goodwill	12	**(34,160)**	(36,393)
Selling and distribution expenses		**(2,258)**	(5,178)
Research and development expenses		**(63,968)**	–
Administrative expenses		**(68,026)**	(14,926)
Finance costs	7	**(574)**	(417)
Loss before tax		**(152,674)**	(37,332)
Income tax expense	8	**(861)**	(576)
Loss for the period/year	9	**(153,535)**	(37,908)
Other comprehensive (loss) income			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translating foreign operations		**(2,047)**	377
Total comprehensive expense for the period/year		**(155,582)**	(37,531)
Loss per share	11		
Basic (HK cents per share)		**(6.56)**	(2.70)
Diluted (HK cents per share)		**(6.56)**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2014

	Notes	31.12.2014 HK$'000	31.03.2014 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Plant and equipment		**47,633**	28,932
Investment properties		**13,100**	25,600
Goodwill	12	**13,501**	47,661
Prepaid lease payments		**–**	8,733
Deposit paid for acquisition of a company		**133,277**	–
Deposits paid for acquisition of plant and equipment		**8,071**	–
		215,582	110,926
CURRENT ASSETS			
Prepaid lease payments		**–**	216
Inventories	13	**14,365**	16,835
Trade and other receivables	14	**33,411**	13,007
Income tax recoverable		**–**	147
Held for trading investments		**–**	4,260
Pledged deposit		**187,575**	–
Bank balances and cash		**1,485,818**	44,324
		1,721,169	78,789
CURRENT LIABILITIES			
Trade and other payables, and deferred revenue	15	**75,661**	13,922
Income tax payable		**752**	34
Bank borrowings		**–**	5,754
Obligations under finance lease – amount due within one year		**1,400**	1,283
		77,813	20,993
NET CURRENT ASSETS		**1,643,356**	57,796
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,858,938**	168,722

	31.12.2014	31.03.2014
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Long term payable	**345**	–
Bank borrowings	**140,000**	–
Obligations under finance lease – amount due after one year	**233**	1,400
Deferred tax liabilities	**119**	157
	140,697	1,557
NET ASSETS	**1,718,241**	167,165
CAPITAL AND RESERVES		
Share capital – Ordinary shares	**34,061**	14,495
Share capital – Preferred shares	**10,733**	–
Reserves	**1,668,445**	152,670
Equity attributable to owners of the Company	**1,713,239**	167,165
Non-controlling interest	**5,002**	–
TOTAL EQUITY	**1,718,241**	167,165

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 April 2014 to 31 December 2014

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"). 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 novel space service, 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.

1.1 BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

During the current financial period, the reporting period end date of the Group was changed from 31 March to 31 December because the Group would like to align with the financial year end date of its subsidiaries incorporated in the PRC as their accounts are statutorily required to be closed with the financial year end date of 31 December. Accordingly, the consolidated financial statements for the current period cover the nine months ended 31 December 2014. The corresponding comparative amounts shown for the consolidated statement of profit or loss and other comprehensive income and related notes cover a twelve months ended 31 March 2014 and therefore may not be comparable with amounts shown for the current period.

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

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The application of the interpretation and amendments to standards in the current year has had no material impact on the Group's and the Company's financial performance and positions for the current and prior year 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[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKAS 1	Disclosure Initiative[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[5]

[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 2017
[4] Effective for annual periods beginning on or after 1 July 2014
[5] Effective for annual periods beginning on or after 1 January 2016
[6] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

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 2014 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 a material 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 a material 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 application of the new and revised HKFRSs in issue but not yet effective in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. REVENUE

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

	01.04.2014 to 31.12.2014 *HK$'000*	01.04.2013 to 31.03.2014 *HK$'000*
Revenue from novel space service	**9,224**	–
Revenue from the sale of goods	**69,737**	112,648
Revenue from rental income *(note)*	**503**	785
	79,464	113,433

Note:

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

	01.04.2014 to 31.12.2014 *HK$'000*	01.04.2013 to 31.03.2014 *HK$'000*
Gross rental income	**503**	785
Less: Outgoings (included in cost of sales)	**(18)**	(18)
Net rental income	**485**	767

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. Novel space service – applying the technology developed in respect of the civil near space flying apparatus to provide various consultancy services regarding novel space service.

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:

	Novel space service		**Paper business**		**Property investment**		**Total**	
	01.04.2014 to 31.12.2014 *HK$'000*	01.04.2013 to 31.03.2014 *HK$'000*	**01.04.2014 to 31.12.2014** *HK$'000*	01.04.2013 to 31.03.2014 *HK$'000*	**01.04.2014 to 31.12.2014** *HK$'000*	01.04.2013 to 31.03.2014 *HK$'000*	**01.04.2014 to 31.12.2014** *HK$'000*	01.04.2013 to 31.03.2014 *HK$'000*
Revenue	**9,224**	–	**69,737**	112,648	**503**	785	**79,464**	113,433
Segment (loss) profit	**(66,537)**	–	**(36,131)**	(29,687)	**65**	667	**(102,603)**	(29,020)
Unallocated corporate income							**10,556**	1,344
Unallocated corporate expenses							**(60,053)**	(9,239)
Finance costs							**(574)**	(417)
Loss before tax							**(152,674)**	(37,332)

Segment loss represents the loss reported earned by each segment without allocation of central corporate income and expense, directors' remuneration, gain on disposal of a subsidiary, 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

	31.12.2014	31.03.2014
	HK$'000	*HK$'000*
Novel space service	**164,008**	–
Paper business	**73,509**	114,766
Property investment	**13,109**	25,895
Total segment assets	**250,626**	140,661
Unallocated corporate assets	**1,686,125**	49,054
Consolidated assets	**1,936,751**	189,715

Segment liabilities

	31.12.2014	31.03.2014
	HK$'000	*HK$'000*
Novel space service	**44,111**	–
Paper business	**21,144**	11,853
Property investment	**157**	125
Total segment liabilities	**65,412**	11,978
Unallocated corporate liabilities	**153,098**	10,572
Consolidated liabilities	**218,510**	22,550

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

- all assets are allocated to operating segments other than held for trading investment, pledged deposit, cash and cash equivalents and other assets for corporate use including certain plant and equipment, deposits and other receivables; and

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

Other segment information
Period ended 31 December 2014

	Novel space service	**Paper business**	**Property investment**	**Unallocated**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***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**
Changes in fair value of investment properties	**–**	**–**	**(108)**	**–**	**(108)**
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**

Year ended 31 March 2014

	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	498	35	–	533
Depreciation and amortisation	4,953	83	–	5,036
Changes in fair value of investment properties	–	106	–	106
Changes in fair value of financial assets classified as held for trading	–	–	672	672
Loss on disposal of plant and equipment	67	–	–	67
Write-down of inventories	481	–	–	481
Impairment loss recognised in respect of goodwill	36,393	–	–	36,393

5. OTHER INCOME

	01.04.2014 to 31.12.2014 ***HK$'000***	01.04.2013 to 31.03.2014 *HK$'000*
Sales of scrap materials	**470**	524
Interest income earned on bank balances and pledged deposit	**6,015**	310
Dividend income	**87**	187
Management fee income	**666**	720
Write off of other payables	**1,074**	–
Sundry income	**465**	127
	8,777	1,868

6. OTHER GAINS AND LOSSES

	01.04.2014 to 31.12.2014 ***HK$'000***	01.04.2013 to 31.03.2014 *HK$'000*
Loss on disposal of plant and equipment	**(210)**	(67)
Gain on disposal of a subsidiary	**3,303**	–
Gain (loss) arising on change in fair value of investment properties	**108**	(106)
Gain (loss) arising on change in fair value of financial assets classified as held for trading investments	**505**	(672)
Write-down of inventories	**(2,266)**	(481)
Exchange loss, net	**(12,362)**	(1,119)
	(10,922)	(2,445)

7. FINANCE COSTS

	01.04.2014 to 31.12.2014 *HK$'000*	01.04.2013 to 31.03.2014 *HK$'000*
Interest on:		
Bank borrowings not wholly repayable within five years	**415**	173
Obligations under finance lease	**159**	244
	574	417

8. INCOME TAX EXPENSE

	01.04.2014 to 31.12.2014 *HK$'000*	01.04.2013 to 31.03.2014 *HK$'000*
The charge comprises:		
Current tax		
PRC Enterprise Income Tax	**90**	28
Hong Kong profits tax	**809**	566
	899	594
Deferred taxation	**(38)**	(18)
	861	576

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

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for the period/year.

9. LOSS FOR THE PERIOD/YEAR

	01.04.2014 to 31.12.2014 *HK$'000*	01.04.2013 to 31.03.2014 *HK$'000*
Loss for the period/year 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	**35,324**	36,745
Retirement benefits scheme contributions	**1,834**	1,002
Share-based payments – equity-settled	**18,138**	–
Total staff costs	**55,296**	37,747
Research and development expenses:		
Consultancy fee *(note)*	**55,000**	–
Salaries and other benefits	**8,280**	–
Retirement benefit scheme contribution	**647**	–
Other	**41**	–
	63,968	–
Amortisation of prepaid lease payments	**36**	215
Auditor's remuneration	**880**	800
Depreciation for plant and equipment	**3,584**	4,821
Operating lease rental on land and buildings	**1,427**	1,728
Cost of inventories recognised as an expense	**60,989**	93,256
Advisory expenses	**30,126**	–

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

10. DIVIDEND

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

11. LOSS PER SHARE

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

	01.04.2014 to 31.12.2014 *HK$'000*	01.04.2013 to 31.03.2014 *HK$'000*
Loss		
Loss for the purpose of basic and diluted loss per share (loss for the period/year attributable to owners of the Company)	**(153,535)**	(37,908)

	01.04.2014 to 31.12.2014	01.04.2013 to 31.03.2014
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**2,341,479,429**	140,648,029
Weighted average number of ordinary shares for the purpose of diluted loss per share	**2,341,479,429**	N/A

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 since their exercise would result in a decrease in loss per share. There was no outstanding share option or other potentially dilutive instrument in the Group for the year ended 31 March 2014.

12. GOODWILL

	HK$'000
COST	
At 1 April 2013, 31 March 2014 and 31 December 2014	84,054
IMPAIRMENT	
At 1 April 2013	–
Impairment loss recognised in the year	36,393
At 31 March 2014	36,393
Impairment loss recognised in the period	34,160
At 31 December 2014	70,553
CARRYING VALUES	
At 31 December 2014	13,501
At 31 March 2014	47,661

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

The Group conducted impairment review on goodwill attributable to the paper business segment at the end of the reporting period by reference to its estimated recoverable amount. The recoverable amount of the paper business segment has been determined based on a value-in-use calculation and an impairment loss was recognised in respect of this CGU amounting to approximately HK$34,160,000 during the period ended 31 December 2014 (year ended 31 March 2014: HK$36,393,000) due to the unfavorable performance of the industry. The recoverable amount of the CGU, determined by using value-in-use, was approximately HK$72,324,000 (31 March 2014: HK$93,724,000). Accordingly, the excess of the carrying amount of the assets and liabilities, including goodwill of the CGU over the recoverable amount of the CGU was recognised as an impairment loss, amounting to approximately HK$34,160,000.

That calculation used cash flow projections based on financial budgets approved by the directors of the Company covering a five-year period, with pre-tax discount rate of 11.19% (31 March 2014: 10.04%). The cash flows beyond the five-year period were extrapolated using a steady growth rate of 3% (at 31 March 2014: 3%). The growth rate was based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry. The key assumptions for the value-in-use calculation related to the estimation of cash flows included gross margin and discount rate. Gross margin represents budgeted gross margin, which is based on past performance and the management's expectation for the market development. The discount rate used is pre-tax rates that reflect current market assessments of the risks specific to the relevant industry. Management believed that any reasonably possible change in any of these assumptions would not cause the aggregate carrying values of paper business segment to exceed its aggregate recoverable amount.

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

13. INVENTORIES

	31.12.2014	31.03.2014
	HK$'000	*HK$'000*
Raw materials	**3,254**	5,630
Work in progress	**10,724**	9,031
Finished goods	**387**	2,174
	14,365	16,835

14. TRADE AND OTHER RECEIVABLES

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.

	31.12.2014	31.03.2014
	HK$'000	*HK$'000*
Trade receivables		
0 – 30 days	**7,835**	7,034
31 – 60 days	**7,056**	1,584
61 – 90 days	**3,285**	3,184
91 – 180 days	**292**	288
181 – 365 days	**146**	24
	18,614	12,114
Deposits and other receivables	**2,523**	639
Interest receivables	**4,237**	–
Loan receivable *(note)*	**6,346**	–
Prepayments	**1,691**	254
	33,411	13,007

The Group did not hold any collateral over these balances.

Note:

Amount represents interest free loan advanced to Martin Aircraft Company Limited ("MACL") amounting to AUD1,000,000 (equivalent to approximately HK$6,346,000) as at 31 December 2014 (31 March 2014: Nil). 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.

An amount due from a related company amounted to HK$5,167,000 (31 March 2014: HK$1,840,000) is included in the above trade receivables.

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

	31.12.2014	31.03.2014
	HK$'000	*HK$'000*
Overdue by:		
0 – 30 days	**5,303**	3,184
31 – 60 days	**2,625**	288
61 – 90 days	**143**	24
91 – 180 days	**294**	–
	8,365	3,496

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.

15. 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.

	31.12.2014	31.03.2014
	HK$'000	*HK$'000*
Trade payables		
0 – 90 days	**9,561**	3,985
Over 90 days	**3,753**	4,059
	13,314	8,044
Deferred revenue	**5,719**	–
Deposit received	**106**	270
Other payables and accruals *(note a)*	**56,522**	5,608
Long term payable *(note b)*	**345**	–
	76,006	13,922
Presented on the consolidated statement of financial position as:		
Long term payable	**345**	–
Trade and other payables	**75,661**	13,922
	76,006	13,922

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

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

Note:

(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 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, non-interest bearing and repayable on demand.

In addition, as at 31 December 2014, balance of other payables and accruals comprises (i) approximately HK$135,000 (31 March 2014: HK$170,000) due to a related company, Beautiking Investments Limited ("Beautiking"), of which Mr. Ng and Ms Li are the directors and the controlling shareholders; and (ii) approximately HK$212,000 (31 March 2014: Nil) due to a related company, New Spring Group Co. Ltd ("New Spring Group"), of which Mr. Ng and Ms Li are the directors. Both amounts are unsecured, non-interest bearing 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 year end date of the period under review was 31 December 2014 and the results of the Group contained in the audited consolidated financial statements covered the results for nine months period from 1 April 2014 to 31 December 2014. The corresponding comparative amounts for the results covered a twelve-month period from 1 April 2013 to 31 March 2014 were used for discussion purpose in this section.

PERFORMANCE REVIEW AND PROSPECTS

During the nine months period ended 31 December 2014 ("Period"), the Group has been principally engaged in the novel space services and other innovative technology business, the manufacture and trading of paper packaging products and paper gift items and the printing of paper promotional materials ("Paper Business") and the property investment segment.

During the Period, the Group recorded a turnover of approximately HK$79,464,000 (year ended 31 March 2014: HK$113,433,000) and the Group's loss attributable to owners was approximately HK$153,535,000 (year ended 31 March 2014: loss attributable to owners of approximately HK$37,908,000).

Novel Space Services and other Innovative Technology Business

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

During the Period, the revenue generated from the Novel Space Services Segment was approximately HK$9,224,000. During the Period, research and development expenses incurred were approximately HK$63,968,000, in which approximately HK$55,000,000 was incurred pursuant to the Outsourcing Technology Development Agreement ("OTDA") entered into with Kuang-Chi Innovative Technology Limited ("Kuang-Chi") on 22 August 2014.

Pursuant to the OTDA, the Group appointed Kuang-Chi, a strategic shareholder, as developer to research and develop a civil near space flying apparatus, namely the Traveller, with a volume of not less than 10,000 cubic metre, which shall be equipped with communication facilities to be used in the range from ground level to near space and shall be able to fly at no less than 20 kilometres above sea level. The agreed level of testing and delivery of the relevant technologies and materials have been completed by 31 December 2014. The management considered the research and development of the Traveller as at 31 December 2014 was still in the research phases according to appropriate accounting standard, the contract sum of approximately HK$55,000,000 was recognized as research expenses for the nine months period ended 31 December 2014.

During the Period, the Group and Pengxin International Mining Company Limited ("Pengxin") entered into cooperation agreements. According to the cooperation agreements, the Group will provide consultation services to Pengxin on various novel space services and other innovative technology solutions in the Democratic Republic of the Congo. Certain portion of the consultation works and its direct related costs were incurred up to 31 December 2014, the relevant portion of the consultation fee received was recognised as revenue according to the stage of completion of the consultation works. As a result, net results of approximately HK$66,537,000 (year ended 31 March 2014: Nil) was incurred in this segment.

During the Period, our management team has met with the president of the Democratic Republic of the Congo, the Group and Pengxin entered into a cooperation agreement with the government of the Democratic Republic of the Congo (the "Congo Government"), pursuant to which, the Congo Government will provide with the supports and resources to the Group and Pengxin for the provision of the novel space services and solutions in the Democratic Republic of the Congo. Furthermore, witnessed by the president of the PRC and the prime minister of New Zealand, the Group and Pengxin have also entered in to a memorandum of understanding with Airways Corporation of New Zealand Limited for the test launch of the Traveller and the provision of consultations in New Zealand. As at the date of this announcement, our management team is negotiating with the counterparties and planning ahead together for the definitive plan and terms for the deployment of the novel space services and solutions in the future.

Other than the above mentioned, the Group has entered into other cooperation agreements with the Weather Department of Shenzhen City for the cooperation on metrological projects for five years and with the Shanghai Institute of Space Systems Engineering of China Aerospace Science and Technology Corporation for the cooperation on near space manned spaceflight and space travel projects for five years. Subsequently in 2015, the Group has also entered into cooperation agreements with The Export-Import Bank of China and China Citic Bank Corporation Limited which enabled the Group for long-term and stable credit facilities for future business development and overseas expansion of the Group. After the successful test launch of the Cloud in February 2015, the Group has also entered into a cooperation agreement with Parakou Shipping Limited for development of marine solutions and for conducting further commercial testing. Subsequently, the Group has also entered into cooperation agreement with Dr. Peng Telecom & Media Group Co., Ltd for establishment of innovative technology platform and wireless communication platform as well as the cooperation in the operation service of OTT (Over The Top).

On 19 December 2014, the Company has entered into an investment agreement with Martin Aircraft Company Limited ("MACL") to subscribe in aggregate 52% of its enlarged issued share capital by stage. MACL has finally listed on the Australia Stock Exchange on 24 February 2015 and the Company has become the largest shareholder of MACL. MACL aims at developing a practical jetpack and is currently in the final design stage. The Group and MACL will incorporate joint venture companies in the PRC and Hong Kong which will principally be engaged in research and development of the jetpacks and the sale and distribution of jetpacks in the PRC and Hong Kong.

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

Paper Business

During the Period, the turnover contributed by the Paper Business was approximately HK$69,737,000 (year ended 31 March 2014: HK$112,648,000). The decrease of turnover was mainly due to the weakening global demand and fierce competition in the printing and packaging industry. With the increase in labour and other production costs experienced during the Period, the segment results from the Paper Business have further dropped. The management are of the view, the estimated sales orders in the ensuring year has dropped and the profit margins of the products would further deteriorate, which is also due to the recent announcement about the adjustment of minimum wages in Shenzhen City with effect from 1 March 2015, comparing with what the directors previously expected, the Group has revised its cash flow forecast for the Paper Business cash-generating unit ("CGU").

With reference to the valuation reports issued by an independent external valuer, the directors have made a further impairment loss of approximately HK$34,160,000 (year ended 31 March 2014: HK$36,393,000) in respect of the carrying amount of the goodwill, which was arising from the acquisition of the Paper Business during the year ended 31 March 2013. As a result, the segment loss before finance costs and relevant tax expenses of approximately HK$36,131,000 was recorded (year ended 31 March 2014: HK$29,687,000).

During the Period, the Group has experienced a downturn of the paper and packaging industry in terms of delays in placement of orders received and even decrease in order quantity. Although there is slow recovery in some of the regions, e.g. U.S.A., the world economy still faces a prolonged period of sluggish growth. The Euro zone is still suffering from high unemployment rate and low inflation as well as the expectation of a slower growth in China over the medium term than in the recent past. Salaries and wages accounted for the major costs of the paper business, the increase in minimum wages as announced in 2015 will further adversely affect the profitability of the whole industry. Therefore, 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. For the period ended 31 December 2014, leasing income of approximately HK$503,000 (year ended 31 March 2014: HK$785,000) was recognised. During the Period, 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$108,000 is recognised in the Period (year ended 31 March 2014: loss on change in fair value of investment property HK$106,000). As a result, a segment profit of approximately HK$65,000 incurred (year ended 31 March 2014: HK$667,000).

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 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 Group also placed fixed deposits and pledged deposits, interest income earned on the deposits was approximately HK$6,015,000 (year ended 31 March 2014: HK$310,000).

During the Period, the Company has granted share options to directors and employees of the Group, the relevant share-based payment expenses for the Period was approximately HK$18,138,000 (year ended 31 March 2014: Nil), of which approximately HK$6,739,000 has been allocated to the Novel Space Services Segements. During the Period, the Company has recognised the financial advisory fee in respect of the acquisition of Martin Aircraft Company Limited and their services for approximately HK$30,126,000. Details of the acquisition and the relevant financial advisory fee were disclosed in the announcement of the Company dated 19 December 2014, 31 December 2014 and 23 February 2015. Net exchange loss of approximately HK$12,362,000 was recognised during the Period (year ended 31 March 2014: HK$1,119,000) and it was mainly due to the significant depreciation of RMB to HKD in the second half of 2014.

CAPITAL STRUCTURE

Subscription completed on 22 August 2014

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 is approximately HK$327,000,000, of which net proceeds of approximately HK$123,000,000 have been received on 22 August 2014, and the remaining net proceeds of approximately HK$204,000,000 are receivable according to the terms and conditions set out in the Subscription Agreement. Upon completion of this subscription on 22 August 2014, the Company issued 1,666,666,668 ordinary shares and 2,683,333,332 preferred shares to the Subscribers. Upon completion of this subscription, New Horizon (together with its beneficial owners, namely Wireless Connection Innovative Technology Limited, Kuang-Chi Innovative Technology Limited, Shenzhen Dapeng Kuang-Chi Technology Limited, Shenzhen Dapeng Kuang-Chi Lianzhong Technology (Limited Liability Partnership) and henzhen

Kuang-Chi Hezhong Technology Limited and Dr. Liu Ruopeng) became interested in 1,133,333,334 ordinary shares (respresented approximately 36.37% of the issued share capital as on 22 August 2014) and 1,824,666,666 preferred shares of the Company.

Subsequently on 17 February 2015, the Company has received approximately HK$102,000,000 from the Subscribers and the Tranche A Preferred Shares were fully paid up as at that date.

Details of the subscription and subscribers were disclosed in the circular of the Company dated 29 July 2014 and announcements dated 13 June 2014, 22 August 2014 and 17 February 2015.

Subscription completed on 29 September 2014

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

Details of the subscription were disclosed in the announcements of the Company dated 15 September 2014 and 29 September 2014.

Use of proceeds

The total proceeds from the subscriptions during the Period were approximately HK$1,888,401,000. Approximately HK$204,000,000 has not yet received up to 31 December 2014 according to the terms of the Subscription Agreement. Below is an analysis for the status of use of proceeds from subscriptions up to the end of the Period:

Intended use of proceeds	**Total proceeds received**	**Reclassification**	**Used up to 31 December 2014**	**Remaining proceeds as at 31 December 2014**
		(note)		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Payments for the OTDA	55,000	–	(55,000)	–
Acquisition of land site and construction of manufacturing facilities and expansion of production capacity for the Novel Space Service Segment	1,090,000	–	(30,860)	1,059,140
Research and development for products and expenses for the Novel Space Service Segment	535,000	(300,000)	(8,968)	226,032
General working capital	208,401	–	(10,509)	197,892
Global merger and acquisition of novel space services industry and products	–	300,000	(139,590)	160,410
Less: Proceeds not yet received	(204,000)	–	–	(204,000)
	1,684,401	–	(244,927)	1,439,474

Note:

In relation to the recent acquisitions of MACL and the proposed acquisition of Solar Ship Inc. (which is further discussed in the section of "Investment position and planning"), the management considers these acquisitions can accelerate the research and development stage for the Cloud and the Traveller by exchange of experience and technology among the research and development teams of the group, jetpacks and solar ships. Furthermore, our services can extend to different altitude from hundred meters above the ground to the near space. Therefore, the management considers the Novel Space Services Segment will be benefited from the acquisition and considers reclassification for approximately HK$300,000,000 from the originally intended use for research and development of products and expenses for the Novel Space Services Segment to the use for global merger and acquisition of novel spaces services related industry or products and fund the above acquisitions or other relevant potential acquisitions. The management may use the internal resources, seek external financing or further consider change of the use of intention to fund the remaining amounts of the above acquisitions or any other development when necessary.

The unused proceeds up to 31 December 2014 were approximately HK$1,439,474,000. 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. Subsequent to the Period, the Group has further paid for approximately HK$38,070,000 for the acquisition of MACL. The acquisition of MACL will further require for approximately AUD23,000,000 (equivalent to approximately HK$145,970,000). On 25 March 2015, the Group has further subscribed the new shares of Zhejiang Longsheng Automotive Parts Stock Limited Corporation with consideration of approximately RMB300,000,000 (equivalent to approximately HK$375,000,000). And the proposed acquisition of Solar Ship Inc. would further require about CAD42,000,000 (equivalent to approximately HK$282,000,000).

The below discussion provides update for the use of acquisition of land site and construction of manufacturing facilities and expansion of production capacity for the Novel Space Service Segment:

1) As stated in the announcement of the Company dated 29 September 2014, the Group is currently negotiating with relevant government departments for an acquisition of a piece of land for the construction of facilities and expansion of production capacity relating to near space and other innovative technology business. Based on the current negotiation between the Group and the relevant government departments, the management expects that approximately HK$330,000,000 would be paid for the acquisition of this piece of land with an area of approximately 600,000 square metres by 31 December 2014 subject to the approval by the relevant government departments. The land acquisition cost is estimated by the management with reference to the area under negotiation and the latest information issued by the relevant government departments with listed prices of the relevant land site. As at the date of this announcement, the relevant administrative procedures are undergoing and the acquisition of the land site has been postponed. The management expects that the land use right will be granted through official government procedures in the first half of 2015. The final price and area of the land are subject to the final decision of the relevant government departments.

2) As stated in the announcement of the Company dated 29 September 2014, the management expected that at least HK$39,000,000 would be paid to contractors and suppliers for construction contracts and for acquisition of plant and machineries. As at 31 December 2014, approximately HK$30,860,000 was paid for acquisition of plant and equipment and further contracts for approximately amounted HK$18,317,000 and disclosed under the section of capital commitment. The management considers the delay of order for the plant and equipment compared to the plan as previously disclosed was due the time spent on tailoring the specification of the equipment to cope with the quick evolution of technology and requirements of the development plan. The Group is continuing seeking for appropriate suppliers to purchase the relevant equipment.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the total shareholders' funds of the Group amounted to approximately HK$1,718,241,000 (31 March 2014: HK$167,165,000), the total assets of approximately HK$1,936,751,000 (31 March 2014: HK$189,715,000) and the total liabilities of approximately HK$218,510,000 (31 March 2014: HK$22,550,000).

As at 31 December 2014, the Group had bank balances and cash of approximately HK$1,485,818,000 (31 March 2014: HK$44,324,000), and the Group had pledged deposits of approximately HK$187,575,000 (31 March 2014: Nil). The gearing ratio as of 31 December 2014, defined as the percentage of the total interest bearing debt, including bank borrowings of approximately HK$140,000,000 (31 March 2014: HK$5,754,000) and obligations under finance leases of approximately HK$1,633,000 (31 March 2014: HK$2,683,000), to net asset value, was approximately 8.24% (31 March 2014: 5.05%).

The Group's business operations and investments are in PRC, Hong Kong and New Zealand. Bank Balances and cash as at 31 December 2014 denominated in local currency and foreign currencies mainly included 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 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

Disposal of investment shares

At 31 March 2014, the Group held shares which are trade on the Stock Exchange of Hong Kong with fair value of approximately HK$4,260,000. During the Period, the Group has disposed the shares and a gain on changes in fair value of the held for trading investment of approximately HK$505,000 (year ended 31 March 2014: loss on changes in fair value of held for trading investment approximately HK$672,000) was recognised.

Acquisition of MACL

On 19 December 2014, the Company and MACL have entered into an investment agreement ("Investment Agreement"). Pursuant to the Investment Agreement, upon MACL fulfilling the condition ("Condition") including but not limited to be admitted to the official list of ASX Limited, the Company will (i) acquire up to 15,000,000 ordinary shares of MACL at an issue price of AUD 0.40 per share from certain shareholders of MACL; (ii) subscribe for 40,813,636 new ordinary shares in MACL at an issue price of AUD 0.40 per share; (iii) subscribe for convertible securities that is convertible into 37.74% of the enlarged share capital in aggregate to the shares subscribed in above (i) and (ii) for an amount of AUD23 million (equivalent to approximately HK$145,970,000); and (iv) incorporate a company ("HKCo") together with MACL for the development of MACL's jetpack business in the PRC and Hong Kong, owned 51% by the Company and 49% by MACL. At any time prior to 19 June 2017, the Company shall have the option to sell its 51% equity interest in HKCo to MACL which shall be satisfied by way of allotment and issuance of the swap shares. The swap shares can be exchanged for up to 52% of the enlarge issued share capital in aggregate to the shares subscribed and converted in above (i), (ii) and (iii) respectively in MACL.

Pursuant to the Investment Agreement, as at 31 December 2014, the Company paid a deposit on escrow for approximately AUD21 million (equivalent to approximately HK$133,277,000), where the deposit would be returned to the Company should MACL not meet the Condition set out in the Investment Agreement.

Subsequently in February 2015, the Condition was fulfilled and the Company completed the acquisition of 14,950,000 existing shares of MACL and subscription of MACL's 40,813,636 Shares at an aggregated consideration of approximately AUD22.3 million (equivalent to approximately HK$141,527,000). After the transaction, the Company holds approximately 22.82% of the total shares in MACL, which became an associate of the Company.

Proposed acquisition of Solar Ship Inc.

On 20 December 2014, the Company and Solar Ship Inc. ("Solar Ship") entered into two non-binding letters of intent which contemplate that, subject to the occurrence of certain events and the satisfaction of certain conditions summarized below, the Company will subscribe for new common shares in Solar Ship representing 32.58% of the outstanding common shares of Solar Ship on a fully diluted basis for consideration of Canadian dollars ("CAD") 17 million (equivalent to approximately HK$114,000,00) on or before 30 January 2015 and will subscribe for additional common shares of Solar Ship resulting in the Company holding 54.42% of the outstanding common shares of Solar Ship on a fully diluted basis (in aggregate) for consideration of CAD25 million (equivalent to approximately HK$168,000,000) on or before 30 July 2016. The letters of intent contemplate that the parties will enter into the definitive agreements on or before 10 January 2015. The letters of intent further specify that the definitive agreements would provide for customary conditions to closing, including the completion of satisfactory due diligence and the receipt of all required regulatory approvals.

As at the date of this announcement, the proposed investment is still under process.

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

EVENT AFTER THE REPORTING PERIOD

Subsequently on 25 March 2015, the Group and Zhejiang Longsheng Automotive Parts Stock Limited Corporation ("Longsheng") entered into the 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 the consideration of RMB300 million (equivalent to approximately HK$375 million). The 41,958,041 new Longsheng Shares represent approximately 3.21% of the issued share capital of Longsheng as enlarged by the allotment and issue of all new Longsheng Shares under this Subscription.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2014, certain assets of the Group were pledged to secure banking facilities granted to the Group and obligation under finance lease as follows:

	31 December 2014 *HK$'000*	31 March 2014 *HK$'000*
Investment properties	**–**	13,000
Plant and equipment under finance lease	**4,543**	6,953
Pledged deposit	**187,575**	–
	192,118	19,953

CONTINGENT LIABILITIES

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

CAPITAL COMMITMENT

As at 31 December 2014, the Group has capital commitments as below:

	31.12.2014 *HK$'000*
Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of the acquisition of:	
Plant and equipment	18,317
A company	190,380
	208,697

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2014, the Group had approximately 820 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 an 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 of the Company's code of conduct, and the Company's compliance with the Code Provision and disclosure in the Corporate Governance Report.

The Company has complied with the CG Code during the Period under review, except for the deviations from code provisions A.2.1 and A.4.1 which are explained in the relevant paragraphs below.

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

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

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

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

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 (the "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 during the period ended 31 December 2014.

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 nine months ended 31 December 2014 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 comprehensive income and the related notes thereto for the nine months ended 31 December 2014 as set out in the Preliminary Announcement have been agreed by the Group's auditors, 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.

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

Hong Kong, 26 March 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 Mr. Lau Man Tak, Dr. Liu Jun and Dr. Wong Kai Kit.