

Company Report

China Merchants Securities (HK) Co.Ltd.
Hong Kong Equity Research

Kuangchi Science (439 HK)

From paper maker to space flying device provider

- Kuangchi positions itself as a vertically integrated space services solution provider to line up different downstream and upstream space users
- Kuangchi signed agreement to provide WiFi communication in Congo by the "Cloud"
- Near space flying apparatus "Traveller" will be launched in 2015 in New Zealand

What's new

Kuangchi is a high technology company located in Shenzhen. Its latest innovation is the space services platform named the "Cloud"; and the "Traveller", a civil flying apparatus in near space. The company had signed strategic cooperation agreement with Congo government to help provide high-speed, low-cost and high quality WiFi signal in Congo, as well as other integrated big data collection and analysis. Kuangchi also plans to launch the "Traveller" in New Zealand in 2015. It expects to earn recurring earnings through selling the exclusive operation rights of space services platform. The key person, Dr. Liu Ruopeng, was one of the research team members who invented "cloaking" materials in the US.

Near-term catalysts

The successful launching of "Traveller" in New Zealand, the successful launching of "Cloud" in Congo, and achieving the expected results in WiFi communications.

Valuation/ Key risks

The current historical financial data only reflects its existing paper business and is irrelevant to its flying apparatus business. As the key information on product delivery, order backlogs, pricing, costs, and profitability are not available yet, its earnings outlook are highly uncertain. Key risk: the outlook of its business model is highly uncertain due to the lack of historical record.

Financials

HKD mn (Yr-End 3/31)	2010	2011	2012	2013	2014
Revenue	167	87	0	81	113
Growth (%)	N/A	-48%	N/A	N/A	40%
Net profit	21	(4)	(5)	2	(38)
Growth (%)	N/A	N/A	6%	N/A	N/A
EPS (HKD)	(0.010)	(0.004)	(0.049)	0.002	(0.027)
DPS (HKD)	0	0	0	0	0
P/E (x)	N/A	N/A	N/A	2,670	N/A
P/B (x)	84	90	8	33	45
ROE (%)	29.5%	N/A	N/A	1.2%	N/A

Source: Company data, CMS (HK) estimates

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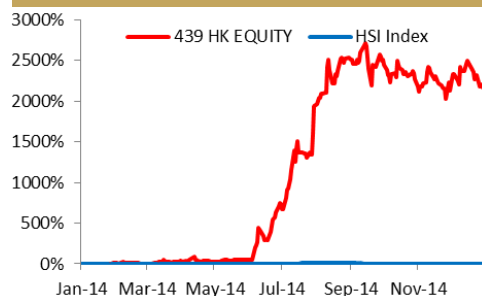
WHAT'S NEW

N/A

Non-Rated

Previous	N/A
Price	HK\$5.34
12-month Target Price (Potential up/downside)	N/A
Previous	N/A

Price Performance



Source: Bigdata

%	1m	6m	12m
439 HK	4.3	17.9	2036.0
HSI	2.5	1.7	17.8

Technology

Hang Seng Index	24530
HSCEI	11708

Key Data

52-week range (HK\$)	0.209-6.38
Market cap (HK\$ mn)	18,699
Avg. daily volume (mn)	67.9
BVPS (HK\$)	0.119

Shareholdings Structure

New Horizon	48.6%
World Treasure Global	10.5%
Starbliss Holdings	6.7%
No. of shares outstanding (mn)	6,089

Free float	31.4%
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Related Research

公司报告

招商证券(香港)有限公司

光启科学 (439 HK)

转型为新晋飞行仪器制造者

- 光启将本身定位为一垂直整合空间服务的供应商，为不同的上下游的空间服务用户提供服务
- 光启签订协议在刚果透过「云端」提供WiFi通讯服务
- 2015年将于新西兰为临近空间飞行器「旅行者号」进行试飞

我们的解读

光启是一家位于深圳的高科技公司，其崭新的空间服务平台名为「云端」；还有临近空间的民用飞行器「旅行者号」。公司已经与刚果政府签订了策略性合作协议，在刚果协助提供高速、低成本、及高质量的WiFi讯号，还有其他大规模的数据收集和分析。光启亦计划于2015年在新西兰推出「旅行者号」，预期可以透过出售空间服务平台的特许经营权赚取经营溢利。关键人物：刘若鹏博士，是美国发明「cloaking」物料研发团队的一员。

催化剂

「旅行者号」在新西兰成功推出，以及「云端」在刚果成功推出，并且达到WiFi通讯的预期结果。

估值/风险提示

现时的历史财务数据只反映其现有的纸业务，与飞行器业务并不相关。由于产品付运、积存订单、订价、成本、以及盈利能力的关键资讯未有提供，我们认为其盈利前景较难预测。主要风险：由于缺乏历史往绩，其业务模式的前景不明确性较高。

盈利预测及估值

人民币百万元(年结三月)	2010	2011	2012	2013	2014
营业额	167	87	0	81	113
同比增长(%)	N/A	-48%	N/A	N/A	40%
净利润	21	(4)	(5)	2	(38)
同比增长(%)	N/A	N/A	6%	N/A	N/A
每股盈利(元)	(0.010)	(0.004)	(0.049)	0.002	(0.027)
每股股息(元)	0	0	0	0	0
市盈率(X)	N/A	N/A	N/A	2,670	N/A
市净率(X)	84	90	8	33	45
ROE(%)	29.5%	N/A	N/A	1.2%	N/A

资料来源：公司资料,招商证券(香港)预测

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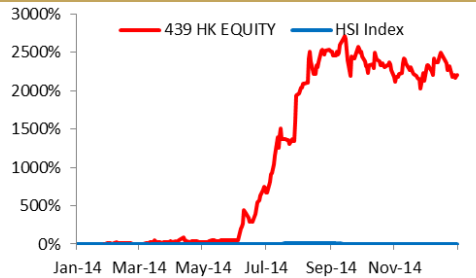
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最新变动

未评级

前次评级	N/A
股价	HK\$5.34
12个月目标价 (上涨/下跌空间)	N/A
前次目标价:	N/A

股价表现



资料来源：贝格数据

%	1m	6m	12m
439 HK	4.3	17.9	2036.0
HSI	2.5	1.7	17.8

行业：科技业

恒生指数	24530
国企指数	11708

重要数据

52周股价区间(港元)	0.209-6.38
港股市值(百万港元)	18,699
日均成交量(百万股)	67.9
每股净资产(港元)	0.119

主要股东

New Horizon	48.6%
World Treasure Global	10.5%
Starbliss Holdings	6.7%

总股数(百万股)	6,089
自由流通量	31.4%

相关报告

Transaction background

The company was named Climax International (439 HK) before Sept. 2014, which was engaged in paper manufacturing. It posted revenue of HK\$45.3mn and net loss of HK\$32mn in 1H14 March Year-end.

In June 2014, the company issued a total of 4.35mn new shares, comprising 1.7mn of new ordinary shares and 2.7mn of new preferred shares at an issue price of HK\$0.08 per subscription share. The subscription price was a 76.1% discount to the closing price of HK\$0.335 before the deal, and close to the net tangible asset value of HK\$0.082 per share as at the end of March 2014. After completing the subscription and the conversion of all preferred shares, New Horizon, a science technology company, will become the major shareholder of the listco. The company raised HK\$348mn through the deal, and the listco was renamed as Kuangchi Science Limited.

Figure 1: Shareholder structure charts

The asset injection background The listco issued 1.7mn new ordinary shares and 2.7mn new preferred shares, which were separated in two equal tranches. It will raise a total of HK\$348mn after the full payment.

	Before the deal		After the issue of ordinary shares and before the conversion of preferred shares		After the issue of ordinary shares and conversion of Tranche A preferred shares		After the issue of ordinary shares and conversion of both Tranche A and Tranche B preferred shares	
	Number of shares (mn)	%	Number of shares (mn)	%	Number of shares (mn)	%	Number of shares (mn)	%
World Treasure Global Ltd	638.9	44.08%	638.9	20.50%	638.9	14.30%	638.9	11.02%
Mr. Ruan Yuan	219.9	15.17%						
The subscribers								
New Horizon			1,133.3	36.37%	2045.7	45.89%	2958.0	51.01%
Starbliss			155.6	4.99%	208.8	6.30%	406.0	7.00%
Grand consulting			77.8	2.50%	140.4	3.15%	203.0	3.50%
Lucky Time			77.8	2.50%	140.4	3.15%	203.0	3.50%
Cutting Edge			155.6	4.99%	280.8	6.30%	406.0	7.00%
REORIENT Global			66.7	2.14%	120.3	2.70%	174.0	3.00%
			1666.7	53.49%	3008.3	67.49%	4350	75.01%
RFML	1		1		1		1	
Public shareholders								
Existing public shareholders	590.7	40.75%	590.7	18.95%	590.7	13.25%	590.7	10.18%
Mr. Ruan Yuan			219.9	7.06%	219.9	4.93%	219.9	3.79%
	590.7	40.75%	810.5	26.01%	810.5	18.18%	810.5	13.97%
Total	1450.5	100.00%	3117.1	100.00%	4458.7	100.00%	5800.4	100.00%

Source: Company data, CMS (HK)

Payment method: after the new shares issue, the subscribers only paid the full subscription price of ordinary shares, and 5% of the subscription price of preferred shares, a total of HK\$144mn in aggregate. The remaining 95% is payable on the first tranche within 6 months of completion, and on the second tranche within 1 year of completion.

Company background

New Horizon is owned as to 51% by Kuang-Chi Innovative Technology (KCIT) and as to 49% by Shenzhen Kuang-Chi Hezhong Technology. Dr. Liu Ruopeng is the controlling shareholder of KCIT, and is also the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology. Therefore, KCIT, Shenzhen Kuang-Chi Hezhong Technology and Dr. Liu Ruopeng are the connected parties.

KCIT is a company established in the PRC and headquartered in Shenzhen, principally engaged in the provision of solutions to innovative products by the use of new technology. According to New Horizon, KCIT has developed a series of innovative technology in Meta-RF electromagnetism modulate, metamaterial, and intelligent photon, etc. functioning in the transmission of satellite, communication by phones, and computers, etc. The Ministry of Science and Technology of PRC is working with KCIT to establish the State Key Laboratory of Metamaterial Electromagnetic Modulation Technology, which focuses on the research of metamaterials and electromagnetic modulation.

The development of space services platform

The agreement to develop flying apparatus

Leveraging on its advanced technologies, KCIT made the Outsourcing Technology Development Agreement (技术开发委托合同) with WFOE, a wholly-foreign owned subsidiary of the listco to develop the near space flying apparatus. It aims to gain a share portion of the huge near space flying apparatus market. The WFOE shall pay a R&D fee of ~HK\$55mn to KCIT according to the R&D stages. Following the completion and delivery of civil near space flying apparatus by KCIT pursuant to the Outsourcing Technology Development Agreement, the Group may consider manufacturing more near space flying apparatus and/or may consider constructing its own production sites.

What is near space?

Near space is the region of the earth's atmosphere that lies between 20 kilometers to 100 kilometers above sea level, which is, in other words, higher than where the commercial aircrafts can fly but below the orbiting satellites. According to the information provided by New Horizon, this region is subject to less electromagnetic interference from ionosphere, and the climate and weather in the near space is extremely stable, so it provides a stabler environment for the operation of communication devices. According to New Horizon and KCIT, the near space flying apparatus is expected to achieve higher cost efficiency than satellites because of lower material costs, lower maintenance costs, lower lifting costs, less signal loss with a closer distance from sea level and nonetheless more loading capacity.

Figure 2: The near space is between outer space and atmosphere (sky)

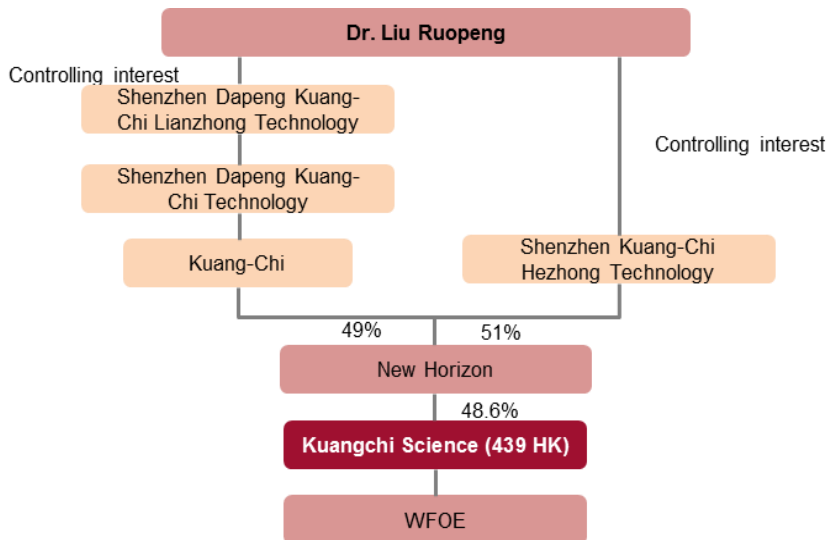


Source: Company data, CMS (HK)

The funding

Besides the listco's raising of HK\$144mn immediately after the first round of issuing new shares and preferred shares in June 2014, Kuangchi Science also entered into another new share placement in Sept. 2014. It issued 289.9mn new shares at a subscription price of HK\$5.386 per share. The company raised HK\$1,561mn through the placement. Assuming the full conversion of all preferred shares, New Horizon's shares in the listco would be diluted to 48.58% from 51.01% after the placement.

Figure 3: The shareholdings structure after the new shares placement

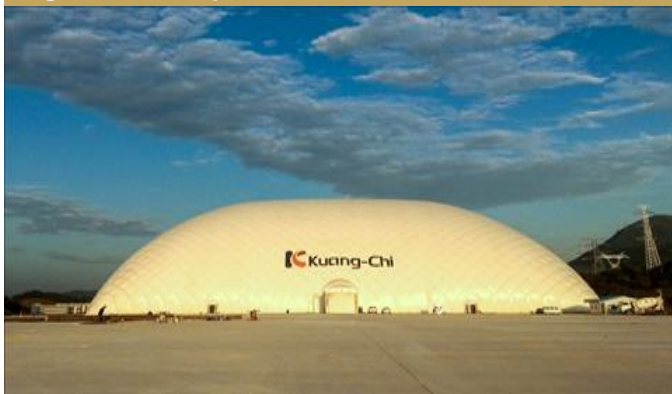


Source: Company data, CMS (HK)

Kuangchi Science’s achievements

On 22 Dec. 2014, Kuangchi officially opened Kuangchi Apollo Base in Shenzhen. In Kuangchi Apollo Base, there erected the Kuangchi Space house No.1, an air-supported membrane structure without beam and column or reinforced concrete. In the Apollo Base, the company also unveiled its first disruptive novel space services platform, named the “Cloud”, as well as certain equipment and technology specifically developed for the “Traveller,” the civil new space flying apparatus, which will be released at the Apollo Base. The altitude of the Cloud could reach up to several thousand meters, while the “Traveller” aviates in the near space at a height of at least 20 kilometers.

Figure 4: The Apollo Base in Shenzhen



Source: Company data, CMS (HK)

Figure 5: The Cloud in the Apollo Base



Source: Company data, CMS (HK)

According to the company, the “Cloud” is a platform providing integrated services including communication, internet access, big data collection and analysis. It is characterized by its low cost, heavy loading and extensive coverage, making it prospectively become a satellite, a ground tower and a strong supplement or substitute of base station, thereby reforming the current state of communication sector. The Cloud will have vertical take-off and landing similar to that of a helicopter, allowing it not to require a runway. It is filled with helium gas to maintain its buoyancy. Moreover, the Cloud adopts new material technologies that connect optical fibers in the air with the main network on the ground, which creates an uplink and downlink megadata hierarchy.

Figure 6: The “Cloud” is a platform providing integrated services including communications, internet access, big data collection and analysis



Source: Company data, CMS (HK)

The management believe the Cloud marks a new era in services 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 and will be able to solve the problem of internet connection failure worldwide.

In Nov. 2014, Kuangchi had reached a tri-party strategic cooperation agreement with the Congo government and Pengxin International Mining Company (600490 CH) to set up a JV to provide broadcasting of telecommunication, mineral exploration, satellite television, meteorological surveillance, disaster rescue, forest protection as well as other applicable areas, using the Kuangchi’s novel space technology. According to the agreement, the initial investment in the JV is not less than US\$1bn in 3 years. According to the announcement, the target revenue of JV is about US\$500mn to US\$600mn annually in the first 3 years, and also expected to rise to US\$1.2bn to US\$1.5bn annually from the fifth year and onwards. It also targets to complete the experiment of providing real-time big-data communication services in 2015, and targets to commence its commercial operation in 2016.

Figure 7: Kuangchi will help provide high-speed, low-price and high quality WiFi servicers in Congo given the low internet penetration



Source: Company data, CMS (HK)

The management expect to trial launch the “Traveller” in New Zealand in 2015. Kuangchi signed a MOU with Airways Corporation of New Zealand and Pengxin Mining Int’l (600490 CH) to cooperate in the testing launch of “Traveller” in New Zealand in Nov. 2014. Airways will assist to obtain relevant permissions for the operation of “Traveller” in New Zealand’s airspace, and Shanghai Pengxin will provide its farms in New Zealand for the testing, and assist Kuangchi to communicate with New Zealand government for all relevant permits, equipment and facilities. At the same time, Kuangchi agreed to provide consultation services to Pengxin, including the coverage and broadcasting of telecommunication, mineral exploration, satellite television, meteorological surveillance, space tourism, disaster detection and forest protection, etc. Pengxin agreed to pay a consultation fee of RMB12.3mn to Kuangchi.

Besides the Cloud and Traveller, the company is undertaking R&D for a manned version of the Traveller which allows taking human beings to the near space.

Figure 8: The Traveller



Source: Company data, CMS (HK)

On 6 Feb. 2015, Kuangchi announced that the results of trial launching the Cloud have met its previous expectations. Specifically, the high speed WiFi communication transmission reached a high capacity at 108Mb/s. The planned information coverage of 8,000 square kilometers (equivalent to more than double the aggregate area of Shenzhen and Hong Kong) was achieved. The ground surveillance equipment carried by the Cloud shot wide-angle high-definition images with resolution of 1080p from sky above. The maritime surveillance equipment collected real-time maritime information within the peripheral area of more than 200 kilometers from Shenzhen regarding the name, nationality, longitude and latitude, navigation and speed of 2,103 vessels on sailing. Compared to the traditional platform, the sea area under the surveillance of the Cloud is enlarged by 9 times.

Invest in Solar Ship Inc.

In Dec. 2014, Kuangchi also entered into non-binding letters of intent that it would invest in 32.58% of shares in Solar Ship Inc. by the subscription of new shares at a consideration of CAD17mn by the end of Jan. 2015; and Kuangchi might increase stakes to 54.42% by the subscription of additional shares by the end of July 2016. Solar Ship, incorporated on Canada, designs and builds hybrid aircraft and large surface area enables the aircraft to fly using solar power. The management believe it represents a good opportunity for Kuangchi to collaborate with Solar Ship to develop disruptive technologies and to maximize Solar Ship’s business potential. The synergies of investments also include sharing the advance technologies of Kuangchi’s advanced material technology and computational simulation technology to support the development of the new hybrid aircraft. Kuangchi can also benefit from Solar Ship’s aviation and flying technology for the development of novel space services.

Figure 9: The Solar Ship



Source: Company data, CMS (HK)

Invest in Martin Jetpack

To enlarge and deepen its R&D areas of disruptive technologies for aviation and flying projects, Kuangchi announced to invest in Martin Jetpack, a high technology company that develops a practical jetpack and is currently in the final design stage. The investment is done by the subscription of new equity, existing share and convertible securities in Martin Jetpack, as well as issuing Swap Shares to Kuangchi. Kuangchi is able to increase its stake to 52% of the enlarged issued share capital of Martin Jetpack, assuming the full conversion of options and Swap Shares. The two parties agreed to establish an HKCo for the development of Martin Jetpack’s jetpack business in PRC and HK.

Martin Jetpack has not generated any revenue yet as the jetpacks remain under development. Martin Jetpack plans to commercialize the jetpacks in 2016, and expect to produce the product for responder customers, such as the fire service or ambulance service and natural disaster recovery agencies. Kuangchi should benefit from the aviation and flying technology of Martin Jetpack for the development of the Cloud and Traveller. Kuangchi also considers the investment a stepping stone to establish a new R&D center in Australia and New Zealand that could facilitate and support the launch of Traveller in New Zealand.

Figure 10: Martin Jetpack’s product



Source: Company data, CMS (HK)

The commercialization/business model

Kuangchi positions itself as a comprehensive space services solution provider to line up up/down stream industries users. It believes its products/technology could be applied in many areas, such as smart observation (travel guide, safety monitoring, WiFi coverage and city urgent services), transportation construction (roadmap planning, water conservation projects, traffic command, traffic monitoring), marine communication (marine WiFi application, surface surveillance and control), backbone communication (rural area communication, and complementary with satellite), satellite television, meteorological surveillance, and travel entertainment (travel to space and landscape scenery), etc.

As for short-term earnings, Kuangchi could sell its space services platform, such as the Cloud and the Traveller, to users. As for long-term recurring earnings, Kuangchi may set up regional space services platform franchise, which has the exclusive operation rights of space services platform. Kuangchi could also generate long-term authorization fees. Kuangchi could charge the fees according to regions or industries/sectors. If the model were success, Kuangchi would become a vertically integrated near space services provider.

Figure 11: Applications of space services



Source: Company data, CMS (HK)

Earnings Comparison

The current historical financial data only reflects its existing paper business and is irrelevant to its flying apparatus business. The key information about Kuangchi's space flying apparatus "Cloud" and the "Traveller", like delivery, order backlogs, pricing, costs, and profitability are unavailable yet. And due to lack of such data and track record, it makes prediction very hard for investors. The share price had soared from ~HK\$0.3 to HK\$5.2 since June 2014 and its current market cap is about HK\$17.8bn. It was mainly driven by positive sentiment of its backdoor listing and investors' excitement about Kuangchi's new business outlook.

Due to the lack of successful example of similar products and technologies, Kuangchi's business model and outlook of space technology and civil flying apparatus growth have a high degree of uncertainty. It will take time to demonstrate the viability of its operation model.

Peacemap Holding (402 HK), a company focuses on the geographic information system (GIS) business, including data processing and data application, and the development of 3D GIS platform software. Its products will provide basic platforms for public cloud services; and private cloud services serving governments and enterprises, geographic information mobile network application, and GIS geographic information massive data business. In 1H14, Peacemap recorded revenue of HK\$107mn, up 183% yoy; gross margin of 23.8%; and net loss of HK\$98mn, due to impairments on PPE and mining licenses. The market expects the company will continue to record a net loss of HK\$119mn in FY14E, and will turn to positive earnings of HK\$148mn in FY15E. It is trading at a consensus of 13x FY15E PE.

Synertone Communication (1613 HK), mainly engaged in R&D providing a solution of specialized communication system, including digital trunking system, Very Small Aperture Terminal (VSAT) satellite system and provision of THAICOM-4 satellite (Synertone 1) satellite bandwidth capacity and communication service application. In 1H14, Synertone recorded revenue of HK\$227mn, and net profit of HK\$124mn. There is no consensus forecast available.

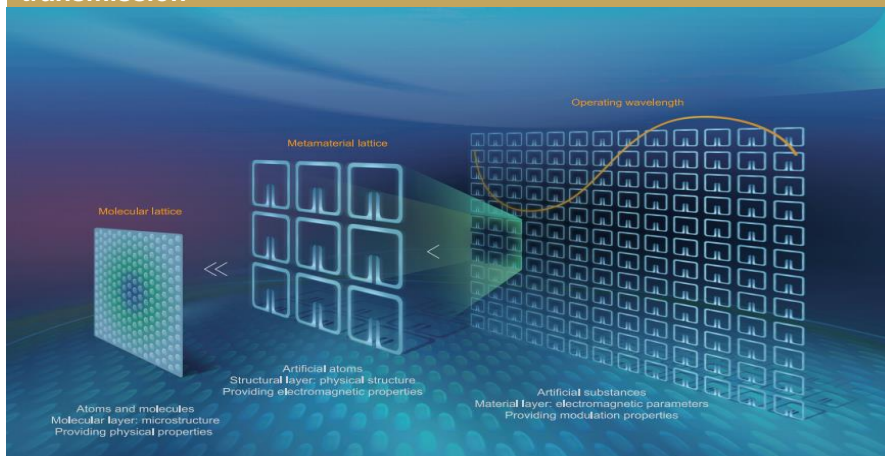
Appendix

The core technologies Kuangchi owns

Meta-RF: The Meta-RF technology is a groundbreaking technology which, based on a complex electromagnetic structure design, controls and modulates the transmission of electromagnetic waves with high accuracy. It has the following innovative features: realizes the reverse design of the electromagnetic properties of materials based on application requirements; provides superior electromagnetic performance beyond the limits of electromagnetic response; implements electromagnetic modulation over a wide range of the electromagnetic spectrum, including low-frequency electromagnetic waves, RF electromagnetic waves, microwaves and millimeter waves, infrared electromagnetic waves, and optical waves. The metamaterial technology is an important means of Meta-RF modulation.

Metamaterial Technology: Metamaterials are special composite materials with physical properties not found in conventional materials. By breaking the natural limits of surface appearance, metamaterials gain their properties that are not found in nature based on their structural and orderly design at the level of key physical dimensions, thus achieving custom electromagnetic functions. As a subject of research in the emerging electromagnetic material discipline, metamaterials are recognized by the Science magazine as one of the top10 technological breakthroughs in the past decade and have seen wide application in electromagnetic wave modulation.

Figure 12: The principle of metamaterial-aided electromagnetic modulation – comprehensive modulation of electromagnetic wave transmission



Source: Company data, CMS (HK)

The technology is feasible to design and manufacture metamaterial devices with high performance in spatial gain, beam deflection, polarization rotation, absorption, and transparency. The core of the metamaterial technology is realizing the artificial design and desired control of electromagnetic wave transmission.

Intelligent Photonic Technology: The intelligent photonic technology utilizes light as the service medium for authorization, identification, and information transmission. It prevents electromagnetic capture and interference effectively, and features high security and ease of use. The technology is widely applied in fields such as photonic identification, photonic coverage, photonic anti-counterfeiting and photonic payment.

Figure 13: The applications of intelligent photonic technology



Source: Company data, CMS (HK)

Biography of major directors

Dr. Liu Ruopeng, aged 30, the sole director of New Horizon and the founder of Kuang-Chi Institute of Advanced Technology (深圳光启高等理工研究院). Dr. Liu obtained a Master of Science degree and a doctorate degree from Duke University (USA) in 2008. He had a strong passion for studying physics and exploring the unknown world since he was young, and he was obsessed with science and innovation. During his years in Duke University, Dr. Liu and his research team developed a new series of complex mathematical commands, known as algorithms, to guide the design and fabrication of exotic composite materials known as metamaterials. These materials can be used to form a variety of “cloaking” structures. The results of the Duke experiments were published in the journal *Science* in 2009. In 2010, Dr. Liu and his partners held the keys to the “cloaking” structure returning to China and established Kuang-Chi Innovative Technology.

Dr. Luan Lin, aged 34, CTO, a member of Kuang-Chi Institute of Advanced Technology founding team and was the vice president of the institute since 2010. Dr. Luan obtained a doctorate degree from Duke University in 2010 and master’s degree from Peking University (PRC) in 2004. Dr. Luan was one of the members of Dr. Liu’s research team in Duke University.

Dr. Zhang Yangyang, aged 35, CEO, a member of Kuang-Chi Institute of Advanced Technology founding team and was the executive vice president of the institute since 2009. Dr. Zhang obtained a doctorate degree from the University of Oxford, the United Kingdom in 2009, and graduated as 硕士研究生 (Master Research Student) from Northeastern University, the PRC in 2004. Dr. Zhang also was the member of Dr. Liu’s research team for the invention of cloak.

Dr. Zhao Zhiya, a member of Kuang-Chi Institute of Advanced Technology founding team. Dr. Zhao obtained a doctorate degree in electrical and computer engineering from Duke University. His research area includes semiconductor, LED and solar power battery. He also was one of the members of Dr. Liu’s research team in Duke University.

Dr. Ji Chunlin, a member of Kuang-Chi Institute of Advanced Technology founding team. Dr. Ji obtained a doctorate degree in statistics from Duke University, and he is a postdoctoral fellow at Harvard University.

Financial Summary

Balance Sheet

HKD million (Yr-end Mar 31)	2010	2011	2012	2013	2014
Current Assets	114	71	67	114	79
Cash & equivalents	70	60	47	68	44
Trade receivable	39	0	15	27	13
Other receivables	0	6			
Inventories	0	0		15	17
Other current assets	5	4	5	5	5
Non-current assets	0	0	1	154	111
PPE	0	0	1	34	29
Goodwill				84	48
Other non-current assets				36	34
Total assets	114	71	68	268	190
Current liabilities	42	3	4	84	21
Bank loans				7	6
Trade payables	42	3	4	17	14
Prepaid accounts					
Other current liabilities	0	0	0	60	1
Long term Liabilities	0	0	0	3	2
Loans					
Others	0	0	0	3	2
Total Liabilities	42	3	4	87	23
Share capital	11	11	1	12	14
Reserves	61	57	63	169	153
Total equity	73	68	64	181	167
Total equity and liabilities	114	71	68	268	190

Cashflow Statement

HKD million	2010	2011	2012	2013	2014
Operating cashflow	(7)	(5)	(4)	8	9
Net profit	21	(4)	(5)	3	(37)
Deprec & Amort.	0	0	0	5	5
Finance costs	0	0	(0)	2	0
Investment income	(0)	0			
Working capital chg	8	(0)	2	1	8
Others	(36)	(1)	(2)	(4)	33
CF from IA	74	(5)	(9)	(54)	3
Capital expenditure	(0)	0	(0)	(3)	(1)
Other investments	74	(5)	(9)	(52)	3
CF from FA	(0)	(0)	(0)	68	(35)
Borrowings				(4)	(1)
Share capital				45	24
Others	(0)	(0)	(0)	27	(58)
Net cash flow	67	(10)	(13)	21	(23)

Profit & Loss Statement

HKD million	2010	2011	2012	2013	2014
Revenues	167	87	0	81	113
Cost of sales	(165)	(86)	0	(65)	(94)
Gross Profit	2	1	0	16	20
Other revenue	1	1	3	4	2
S&D expenses				(3)	(5)
Admin exp	(11)	(6)	(8)	(13)	(16)
Financial costs	(0)	(0)	(0)	(2)	(0)
Others	(4)	(0)	1	1	(37)
Op Profit	(12)	(4)	(5)	3	(37)
PBT	(12)	(4)	(5)	3	(37)
Taxes	0	(0)		(1)	(1)
Profit from discontinued	33	0	(0)		
Net Profit	21	(4)	(5)	2	(38)
Minority interest	(0)	0			
EPS - (HK\$)	(0.010)	(0.004)	(0.049)	0.002	(0.027)

Financial Ratios

	2010	2011	2012	2013	2014
YoY growth rate					
Revenue	N/A	-48%	N/A	N/A	40%
Op profit	-27%	-63%	6%	N/A	N/A
Net profit	N/A	N/A	6%	N/A	N/A
Profitability					
Gross margin	1.0%	1.5%	N/A	20.3%	17.3%
NP margin	12.9%	N/A	N/A	2.7%	N/A
ROE	29.5%	N/A	N/A	1.2%	N/A
ROIC	723.4%	N/A	N/A	2%	N/A
Liquidity					
Debt to Asset	Net	Net	Net	3.9%	3.4%
Net Debt to Equity	Net	Net	Net	Net	Net
Liquid ratio	273%	2784%	1589%	135%	375%
Quick ratio	273%	2784%	1589%	118%	295%
Operating efficiency					
Asset turnover	146%	123%	0%	30%	60%
Inventory turnover	N/A	N/A	N/A	82.7	65.5
AR turnover	86	0	N/A	119	42
AP turnover	92	11	N/A	95	54
Per share ratios (HKD)					
EPS	N/A	N/A	N/A	0.002	N/A
CFPS	0.058	N/A	N/A	0.019	N/A
BVPS	0.063	0.059	0.645	0.163	0.119
DPS	0	0	0	0	0
Valuation ratios					
P/E	N/A	N/A	N/A	2,670	N/A
P/B	84	90	8	33	45
EV/EBITDA	N/A	N/A	N/A	729	N/A

Source: Company data, CMS (HK) estimates

Investment Ratings

Rating	Definition
BUY	Expected to outperform the market index by >10% over the next 12 months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next 12 months
SELL	Expected to underperform the market index by >10% over the next 12 months

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