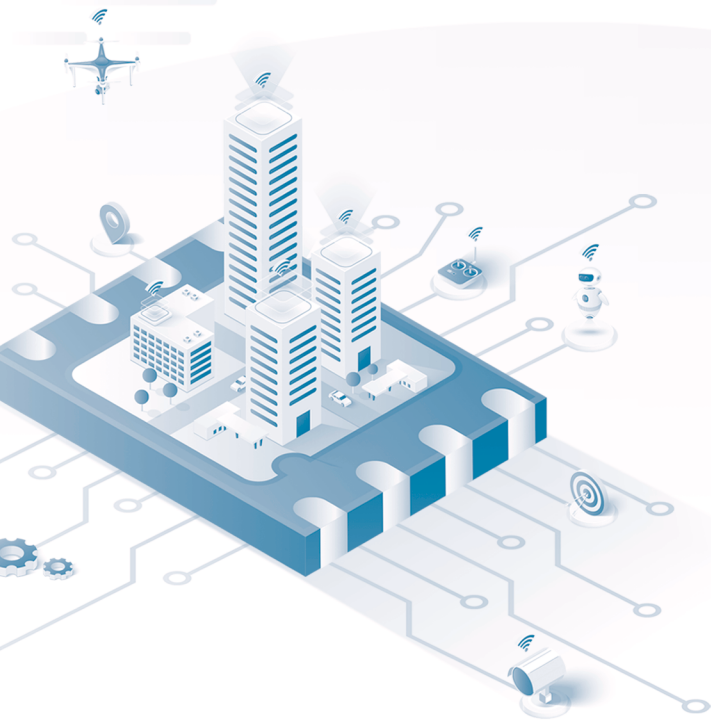


2019 Interim Report

# KUANGCHI SCIENCE LIMITED

Incorporated in Bermuda with limited liability | Stock Code: 439





## CONTENTS

Corporate Information	2
Management Discussion and Analysis	4
Directors' and Chief Executives' Interests in Shares	13
Substantial Shareholders' Interests in Shares	15
Corporate Governance and Other Information	19
Condensed Consolidated Statement of Profit or Loss	22
Condensed Consolidated Statement of Comprehensive Income	24
Condensed Consolidated Statement of Financial Position	25
Condensed Consolidated Statement of Changes in Equity	27
Condensed Consolidated Statement of Cash Flows	29
Notes to the Interim Condensed Consolidated Financial Information	30

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Dr. Liu Ruopeng (*Chairman*)  
Dr. Luan Lin (*Chief Executive Officer & Chief Technology Officer*)  
Dr. Zhang Yangyang (*resigned as Co-Chief Executive Officer on 23 May 2019*)  
Mr. Dorian Barak

#### Independent Non-executive Directors

Dr. Liu Jun  
Dr. Wong Kai Kit  
Ms. Cao Xinyi (*Resigned on 23 July 2019*)

### AUDIT COMMITTEE

Dr. Wong Kai Kit (*Chairman*)  
Dr. Liu Jun  
Ms. Cao Xinyi (*Resigned on 23 July 2019*)

### REMUNERATION COMMITTEE

Dr. Wong Kai Kit (*Chairman*)  
Dr. Liu Jun  
Dr. Zhang Yangyang

### NOMINATION COMMITTEE

Dr. Liu Ruopeng (*Chairman*)  
Dr. Liu Jun  
Dr. Wong Kai Kit

### COMPANY SECRETARY

Mr. Cheng Chi Chung Kevin

### AUDITOR

Crowe (HK) CPA Limited  
*Certified Public Accountants*

### REGISTERED OFFICE

Clarendon House  
2 Church Street, Hamilton HM11  
Bermuda

### HEAD OFFICE IN HONG KONG

Unit 1220, 12/F., Leighton Centre,  
77 Leighton Road, Causeway Bay,  
Hong Kong

### HEAD OFFICE IN SHENZHEN

2/F, Software Building  
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Tel: (86) 0755 8664 9703  
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## CORPORATE INFORMATION

### REGISTRARS

#### Hong Kong

Tricor Secretaries Limited  
Level 54, Hopewell Centre  
183 Queen's Road East, Hong Kong

#### Bermuda

Conyers Corporate Services (Bermuda) Limited  
Clarendon House, 2 Church Street  
Hamilton HM 11 Bermuda

### PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
China Construction Bank  
PingAn Bank Co., Ltd.

### STOCK CODE

439



## MANAGEMENT DISCUSSION AND ANALYSIS

### PERFORMANCE REVIEW AND PROSPECTS

KuangChi Science Limited (the “Company”) and its subsidiaries (the “Group”) are principally engaged in the research and development as well as manufacture of innovative products for future technology business, and provision of other innovative technology service solutions (the “Future Technology Business”). During the six months ended 30 June 2019 (the “Period”), the Group recorded turnover of HK\$35,252,000, which decreased by 61.29% compared to the period ended 30 June 2018. Net loss for the Period was HK\$90,328,000 (2018: net loss of HK\$181,524,000), and the decrease in net loss was due to the significant decrease in research and development expenses and administrative expenses of the Company.

#### Impairment loss on trade receivables and contract assets

With reference to the supplemental information of the 2018 Annual Report of the Group (the “2018 Annual Report”), the provision on trade receivables and contract assets are updated as follows:

With the best efforts of the management to communicate with customers, the Company successfully recovered total trade receivables of approximately RMB93,200,000 related to sales of “Cloud”, a self-developed aerospace product in the previous years during the first half of 2019, and accordingly reversed the related provision of allowance for expected credit loss on trade receivables of approximately HK\$13,150,000.

As for a customer in Dongguan, the People’s Republic of China (the “PRC”) the “Dongguan Customer”, the project team held a telephone conference with them in May 2019 to discuss the repayment plan. On 25 June 2019, the management visited Dongguan, and as planned, discussed the repayment plan. During this visit, the management presented and reported the Company’s latest product – the super intelligent tracking system. Meanwhile, the customer also expressed their wish to learn more about the new product. Through the talks, the management was of the view that the Dongguan Customer was still confident in the Group’s products and a closer business relationship with the Dongguan Customer was built. Therefore, the management is still positive about the repayments of the trade receivables. In addition, another telephone conference was held between the management and the Dongguan Customer on 30 July 2019, in which the initial quotations for the super intelligent tracking system was discussed and repayment plan of the customer related to the Cloud was further discussed. The counterpart said that the proposal would be discussed with their management.

As for the customer in Guizhou the PRC (the Guizhou Customer, the project team held a telephone conference with them in April 2019 to discuss the repayment plan. On 14 June 2019, the management held a video conference with the Guizhou Customer, as planned, continued the discussion on the repayment plan, while presenting and reporting the Company’s latest product – the super intelligent tracking system. Meanwhile, the customer also expressed their wish to learn more about the new product. In addition, the management has arranged the project specialist to visit Zunyi on 27 July 2019 to communicate with the Guizhou Customer regarding the repayment plan. During the visit, the project specialist expressed the wish of the Company’s management to make an official visit, report the new product and discussed the repayment plan of the customer.

## MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2019, the Group and the management actively communicated and negotiated with customers to address issues related to the outstanding trade receivables. The management is still positive about the repayments of trade receivables. Since the outstanding payments of the Dongguan Customer and the Guizhou Customer remained unpaid during the first half of 2019, a full provision was maintained for the relevant trade receivables and contract assets.

### **The Future Technology Business - in-depth development of vertical sectors**

The Group puts its focus on the Future Technology Business. Currently, the Group is committed to building future intelligent cities by developing and integrating different future technologies, including the “AI overlay” technology and the “future space” technology. Such technologies will allow to provide a comprehensive range of innovative products, services and solutions, thereby enhancing service efficiency, satisfying residents’ needs, upgrading living quality and, in particular, solving various problems that are faced by human beings.

In terms of the “AI overlay” technology business, with deep innovation and long time endeavor, the Group achieved certain breakthroughs in the “AI overlay” technology and its application during the Period. The “Matrix Intelligent Engine” stood the concurrent testing of maximum 70,000 visits per second with its powerful computing capacity. The “AI Overlay Network” showed its considerable merits in real scenarios in the Bund, Shanghai, which provided a main test field for the constant optimizing of the technology, and was well recognized by the police. Besides, the promotion of technology achieved remarkable results in Chongqing market with purchase orders from relevant customers. During the Period, the Company actively developed the “AI Overlay Network” in various demonstration regions such as Shanghai, Chongqing, Shunde, Shenzhen and Xiong’an, and has continued to promote “AI Overlay Network” nationwide.

As for the “future space” technology business, during the Period, the Group gradually reduced the research and development investment in “future space” technology. The Group mainly leveraged existing research and development results of aerospace products like “Cloud” and drones (“KC” series and “H” series) to collect multi-source information such as visible light and infrared radiation to provide basic data for “AI Overlay Network.”



## MANAGEMENT DISCUSSION AND ANALYSIS

### **“Matrix Intelligent Engine” made breakthroughs in intelligent concurrent processing, and “AI Overlay Network” gave full play to its powerful practical value**

Starting from the basic scientific research, the Group has developed the leading “AI Overlay” technology, which can realize a sustainable intelligent city solution products that feature insensible intelligence coverage, dynamic identification and tracking. This technology has brought significant capacity improvement in public security defense, anti-terrorism and emergency response, and delicacy governance in cities. Besides, it is great significance in safeguarding social security and improving the ability of comprehensive urban governance. Through practical application, our “AI Overlay” technology solved the key technical problems that the industry has not been able to break through for a long time. For the first time, it realizes global insensible coverage of the massive targets, real-time dynamic tracking, bringing the cross-generation innovative products to the security market. For a long time, the Group has been carrying on in-depth innovation. During the Period, the “Matrix Intelligent Engine” stood the concurrent testing of maximum 70,000 visits per second with its powerful computing capacity.

During the Period, the Group insisted that actual combat is the guiding result. Through physical attendance at the scenes, the Group had optimized identification algorithms and strategies, strengthened the cooperation with actual operational personnel of public security customers and effectively assisted the police in solving many cases and incidents related to people’s livelihood. Good reputation will be accumulated through actual achievements, which will lay a solid foundation for the promotion of “AI Overlay Network” of the Company. Our “AI Overlay Network” is demonstrating its unique charm in Shanghai.



## MANAGEMENT DISCUSSION AND ANALYSIS

### **Actively build “AI Overlay Network” demonstration areas in various regions, and continuously promote the nationwide application of “AI Overlay Network”**

In Shanghai, during the Period, the Group continued its interaction with relevant entities in Shanghai with a view to creating ultimate value for end users. The Group has actively carried out the application of “AI Overlay” technology in the field of social delicacy management, and has achieved remarkable results. During the Period, the Group reached strategic cooperation with the Shanghai Huangpu District Government, and a strategic cooperation agreement was officially signed on June 25. Both parties will jointly create the “AI Overlay Network” demonstration area in the core area of the Huangpu District. The Group will promote and apply the advanced technology and the products of highest quality first in Huangpu, thereby further improving the level of delicacy management of urban area in Huangpu, optimizing the regional business environment and improving the industrial development level.

In the western region of the PRC, during the Period, the Group intensively expanded Chongqing market and achieved remarkable results. During the Period, Chongqing Communications Services Company Limited, mobile service branch (“China Comservice Chongqing”) issued a procurement notice to the Group, stating that it will purchase the relevant systems and products from the Group as the core component for “the Construction Project Targeted to prevent and counter terrorism and riots in the Chongqingbei Railway Station Area by Technology” awarded to its group company. In the same Period, the practical effects of one of our artificial intelligence subsystems, “Prevention of Crowd Crushing and Trampling Alarm System”, was recognized by customers in the Jiefangbei business circle in Yuzhong District.

In Xiong’an, during the Period, the Group continued docking with China Xiong’an Group and its subsidiaries, Xiong’an New Area Public Security Bureau, and relied on the major strategic windows initiated by the construction of Xiong’an New Area to fully participate in the construction of Xiong’an New Area as a “Digital City”. During the Period, the Group launched the construction of the “AI Overlay Network” model points in the civic center.





## MANAGEMENT DISCUSSION AND ANALYSIS

In the southern region of the PRC, the Group is currently committed to creating a new generation of “AI Overlay” technology innovation centers and model bases in Shunde of Foshan and Shenzhen, and building an “AI Overlay” demonstration network in the Guangdong-Hong Kong-Macao Greater Bay Area. During the Period, the Shunde public security “AI Overlay Network” project entered into the pilot stage, passed the pilot verification and was recognized by the District Public Security Bureau. In the same Period, our “AI Overlay” technology began to be applied to the financial sector. In the pilot project of a bank branch in Shenzhen, the Group is committed to building a safe and active financial service system based on “AI Overlay Network” to help customers in achieving safe operation, intelligent risk control and insensible transaction authentication. During the Period, the effects of the pilot project were recognized by our customers.

The management believes that with the development of 5G network, our “AI Overlay” technology will gradually be applied to more vertical industries in combination with its own development goals and industrial needs, especially in accelerating the construction of intelligent cities. “AI Overlay Network” will become a new driving force for economic and social development, with huge application demand and market prospects in intelligent cities.

### Manpower development

With regard to staff development, the Group strengthened the talent nurturing system and designed new employee development system and mechanism to enhance staff quality. The Group will adopt core strategy to continue to attract and develop high-calibre employees and to introduce high-tech talents related to “AI overlay” at a global level. As of 30 June 2019, the Group has employed 264 experts in the area of high and new technology from around the world, and approximately 19% of them obtained master’s degree or above. This has provided a strong talent foundation that in turn strengthened their core competitiveness.

## INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2019 (2018: Nil).

## CAPITAL STRUCTURE

As at 30 June 2019, the Group had a registered and issued ordinary share capital of approximately HK\$61,569,289.

As at 30 June 2019, the Group had bank and other borrowings of approximately HK\$494,350,000 (as at 31 December 2018: approximately HK\$466,449,000).



## MANAGEMENT DISCUSSION AND ANALYSIS

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group's total shareholders' funds amounted to approximately HK\$1,305,988,000 (31 December 2018: HK\$1,431,915,000). Total assets were approximately HK\$2,041,709,000 (31 December 2018: HK\$2,148,823,000) and total liabilities was approximately HK\$735,721,000 (31 December 2018: HK\$716,908,000).

As at 30 June 2019, the Group had cash and cash equivalents of approximately HK\$498,176,000 (31 December 2018: HK\$429,611,000) and pledged bank deposits of approximately HK\$196,000 (31 December 2018: HK\$310,000). The gearing ratio as of 30 June 2019, defined as the percentage of the total interest bearing debt, including bank and other borrowings of approximately HK\$494,356,000 (31 December 2018: HK\$466,449,000) to net asset value, was approximately 37.85% (31 December 2018: 32.58%).

Most of the assets, liabilities and transactions of the Group are primarily denominated in HK\$, RMB and USD. The Group has not entered into any instruments on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

### SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

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

There was no material event occurred after the Period.



## MANAGEMENT DISCUSSION AND ANALYSIS

### CHARGES ON THE GROUP'S ASSETS

As at 30 June 2019, certain assets of the Group were pledged to secure banking facilities granted to the Group as follows:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Financial assets at fair value through other comprehensive income – Shares in KCT	756,005	806,282
Pledged bank deposits	196	310
Construction in progress	311,698	287,221
Prepaid land lease payments	81,806	82,995
	<b>1,149,705</b>	1,176,808

As at 30 June 2019, the Group had no significant contingent liabilities (31 December 2018: Nil).

### CAPITAL COMMITMENTS

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities: property, plant and equipment	170,351	204,788

### EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group had approximately 264 employees (31 December 2018: 420 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### SHARE OPTION SCHEMES AND RESTRICTED SHARE AWARD SCHEME

#### Share Option Scheme of the Company

The Company maintains a share option scheme of the Company (“Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Details about the terms of the Share Option Scheme were disclosed in the 2018 Annual Report.

Movement of options granted under the Share Option Scheme is as follows:

Category of participant	Date of Grant	Exercise price HK\$	Exercisable period <sup>(1)</sup>	Outstanding as at 1 January 2019	Granted during the Period	Exercised during the Period	Outstanding as at 30 June 2019
<b>Directors of the Company (the “Directors”)</b>							
Dr. Zhang Yangyang	30.9.2015	1.604	30.9.2015-29.9.2019 <sup>(2)</sup>	8,000,000	-	-	8,000,000
Dr. Luan Lin	30.9.2015	1.604	30.9.2015-29.9.2019 <sup>(2)</sup>	7,900,000	-	-	7,900,000
Mr. Dorian Barak	30.9.2016	1.604	30.9.2016-29.9.2019 <sup>(2)</sup>	1,000,000	-	-	1,000,000
Sub-total				16,900,000			16,900,000
<b>Employees</b>							
Other employees	30.9.2015	1.604	30.9.2015-29.9.2019 <sup>(2)</sup>	53,100,000	-	-	53,100,000
Total				70,000,000	-	-	70,000,000

- (1) Vesting of the share options is conditional upon the achievement of certain performance targets as set out in respective offer letters.
- (2) Commencing from the first, second and third anniversaries of the date of grant of the options, the relevant grantee may exercise up to 33%, 33% and 34% respectively of the options granted.
- (3) No option was cancelled and lapsed during the Period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Restricted Share Award Scheme**

The Company maintains a restricted share award scheme (the “RSA Scheme”) to recognize and motivate the contribution of the participants and to provide them with a direct economic interest in attaining the long-term business objectives of the Company. Details about the terms of the RSA Scheme were disclosed in the 2018 Annual Report.

During the Period, no restricted shares were granted by the Company. During the Period, no restricted shares were purchased nor issued by the Company for the purposes of the RSA Scheme.



## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2019, the following Directors or chief executives of the Company or his associates had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the “SFO”), or as recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”).

Name of Director/ Chief executive	Number of Shares held		Number of underlying Shares held		Approximate percentage of total issued Shares
	Personal interest	Corporate interests	Personal interest	Total	
Dr. Liu Ruopeng (“Dr. Liu”)	–	3,078,500,000 (L)	–	3,078,500,000 (L)	50.00%
		(note 2)		1,067,862,045 (S)	1,067,862,045 (S)
		(note 3)			
Dr. Zhang Yangyang (“Dr. Zhang”)	–	–	8,000,000 (L) (note 4)	8,000,000 (L)	0.13%
Dr. Luan Lin (“Dr. Luan”)	–	–	7,900,000 (L) (note 5)	7,900,000 (L)	0.13%
Dr. Liu Jun	80,000 (L)	–	–	80,000 (L)	0.001%
Mr. Dorian Barak (“Mr. Barak”)	–	–	1,000,000 (L) (note 6)	1,000,000 (L)	0.016%

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

### Notes:

1. “L” represents long position in shares/underlying shares and “S” represents short position in Shares.
2. This represents the interests in 3,078,500,000 shares of the Company directly held by two companies: – (1.) 3,078,000,000 shares held by New Horizon Wireless Technology Limited (“New Horizon”), being a wholly-owned subsidiary of Wireless Connection Innovative Technology Limited which is owned as to 51% by Kuang-Chi Innovative Technology Limited and as to 49% by Shenzhen Kuang-Chi Hezhong Technology Limited. Kuang-Chi Innovative Technology Limited is a subsidiary of Shenzhen Dapeng Kuang-Chi Technology Limited, which is in turn a subsidiary of Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership (Limited Liability Partnership) of which Dr. Liu is the controlling shareholder, and Dr. Liu is the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology Limited; and (2.) 500,000 shares held by Sky Aisa Holdings Limited (“Sky Asia”), being a wholly-owned subsidiary of Shenzhen KuangChi Youlu Technology Co., Ltd, which is wholly owned by Shenzhen Kuang-Chi Hezhong Technology Limited, and as mentioned above, Dr. Liu is the controlling shareholder. Accordingly, Dr. Liu is deemed to be interested in the same number of shares of the Company held by New Horizon and Sky Asia respectively.
3. This represents the share charge given by New Horizon in favour of Everbright Fortune over 1,067,862,045 Shares owned by New Horizon.
4. This represents interests in the share options of the Company held by Dr. Zhang.
5. This represents interests in the share options of the Company held by Dr. Luan.
6. This represents interests in the share options of the Company held by Mr. Barak. Mr. Barak was interested in an aggregate of 120,126 warrants of SkyX Limited, an associate of the Company, which entitling the holder to subscribe for 120,126 shares (equivalent to approximately 2.89% of the fully diluted shareholding).
7. As of 30 June 2019, the issued shares of the company were 6,156,928,860.

Save as disclosed above, as at 30 June 2019, no interests or short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2019, the following shareholders had interests, directly or indirectly, or short positions in the shares and underlying shares of the Company would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate percentage of total issued Shares
Ms. Huang Weizi	Interest of spouse	3,078,500,000 (L)	–	3,078,500,000 (L)	50.00%
		(note 2)			
		1,067,862,045 (S)		1,067,862,045 (S)	17.34%
New Horizon	Beneficial owner	3,078,000,000 (L)	–	3,078,000,000 (L)	49.99%
		1,067,862,045 (S)		1,067,862,045 (S)	17.34%
		(note 3)			
Wireless Connection Innovative Technology Limited	Interest of controlled corporation	3,078,000,000 (L)	–	3,078,000,000 (L)	49.99%
		1,067,862,045 (S)		1,067,862,045 (S)	17.34%
深圳大鵬光啟科技有限公司 (*Shenzhen Dapeng Kuang-Chi Technology Limited)	Interest of controlled corporation	3,078,000,000 (L)	–	3,078,000,000 (L)	49.99%
		1,067,862,045 (S)		1,067,862,045 (S)	17.34%
深圳大鵬光啟聯眾科技合夥企業(有限合伙) (*Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership (Limited Liability Partnership))	Interest of controlled corporation	3,078,000,000 (L)	–	3,078,000,000 (L)	49.99%
		1,067,862,045 (S)		1,067,862,045 (S)	17.34%



## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate percentage of total issued Shares
深圳光啟合眾科技有限公司 (*Shenzhen Kuang-Chi Hezhong Technology Limited)	Interest of controlled corporation	3,078,500,000 (L) 1,067,862,045 (S)	-	3,078,500,000 (L) 1,067,862,045 (S)	50.00% 17.34%
深圳光啟創新技術有限公司 (*Shenzhen Kuang-Chi Innovative Technology Limited)	Interest of controlled corporation	3,078,000,000 (L) 1,067,862,045 (S)	-	3,078,000,000 (L) 1,067,862,045 (S)	49.99% 17.34%
上海光大富尊環璽投資中心 (有限合伙) (*Shanghai Everbright Fortune Jinghui Investment Center (Limited Liability Partnership)) (note 4)	Person having a security interest in Shares	1,067,862,045 (L)	-	1,067,862,045 (L)	17.34%
光大富尊泰鋒投資管理(上海)有限公司 (*Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd) (note 5)	Interest of controlled corporation	1,067,862,045 (L)	-	1,067,862,045 (L)	17.34%
光大富尊投資有限公司 (*Everbright Fortune Investment Co., Ltd) (note 6)	Interest of controlled corporation	1,067,862,045 (L)	-	1,067,862,045 (L)	17.34%

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate percentage of total issued Shares
光大証券股份有限公司 (*Everbright Securities Company Limited)	Interest of controlled corporation	1,067,862,045 (L)	-	1,067,862,045 (L)	17.34%
Central Faith International Ltd.	Beneficial owner and Interest of controlled corporation	972,981,013 (L)	-	972,981,013 (L)	15.80%
World Treasure Global Limited (note 7)	Beneficiary owner	618,981,013 (L)	-	618,981,013 (L)	10.05%
Ye Cheng (note 8)	Interest of controlled corporation	347,471,988 (L)	-	347,471,988 (L)	5.64%

\* For identification purpose only

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

Notes:

1. “L” represents long position in shares/underlying shares and “S” represents short position in Shares.
2. This represents the interest in the shares of the Company held by New Horizon and Sky Asia. Ms. Huang Weizi (“Ms. Huang”), being the spouse of Dr. Liu, is deemed to be interested in the same number of Shares held by New Horizon and Sky Asia.
3. This represents the share charge given by New Horizon in favour of Everbright Fortune over 1,067,862,045 Shares owned by New Horizon.
4. 50% of equity interest of Shanghai Everbright Fortune Jinghui Investment Center (Limited Liability Partnership) is held by Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd.
5. 85% of equity interest of Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd is held by Everbright Fortune Investment Co., Ltd.
6. 100% of equity interest of Everbright Fortune Investment Co., Ltd. is held by Everbright Securities Company Limited.
7. World Treasure Global Limited is a wholly owned subsidiary of Central Faith International Ltd.
8. Mr. Ye Cheng is the sole owner of Cutting Edge Global Limited which have direct interest on 206,818,877 shares and LUCKY TIME GLOBAL LIMITED which have direct interest on 140,653,111 shares.
9. As of 30 June 2019, the issued shares of the company were 6,156,928,860.

Save as disclosed above, as at 30 June 2019, the Company was not aware of any other person (other than the directors or chief executives of the Company) who had an interest, directly or indirectly, or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

### CORPORATE GOVERNANCE PRACTICES

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

Throughout the Period under review, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") (the "CG Code") and where appropriate, adopted some of the recommended best practices as set out in the CG Code. Set out below are the details of the deviations from the code provisions:

#### **CG code provisions A.6.7 and E.1.2.**

CG Code provisions A.6.7 and E.1.2 stipulate that independent non-executive Directors and the chairman of the Board should attend the annual general meeting. The chairman of the Board Dr. Liu Ruopeng, and three independent non-executive Directors Dr. Wong Kai Kit, Dr. Liu Jun and Ms. Cao Xinyi, did not attend the annual general meeting held on 24 June 2019, due to other business commitments.

The Company periodically reviews its corporate governance practices to ensure that they continue to meet the requirements of the CG Code.

### CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Board of Listed Issuers as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry procedures by the Company, that they had complied with the requirements as set out in the Model Code throughout the Period.



## CORPORATE GOVERNANCE AND OTHER INFORMATION

### CHANGE OF DIRECTORS' INFORMATION

The change of Directors' information during the Period is set out below:

- Dr. Zhang Yangyang (“Dr. Zhang”) has resigned as co-chief executive officer of the Company with effect from 23 May 2019, due to devoting more time to his other personal engagement. Dr. Zhang will continue to act as an executive Director and member of remuneration committee of the Company; and
- Upon Dr. Zhang’s resignation as co-chief executive officer, Dr. Luan Lin became the chief executive officer of the Company with effect from 23 May 2019.

Save as disclosed above, as at 30 June 2019, there is no other change of Directors' information which is required to be disclosed in the 2019 Interim Report in accordance with Rule 13.51B (1) of the Listing Rules.

On 23 July 2019, Ms. Cao Xinyi resigned as an independent non-executive Director and ceased to act as the chairman of the audit committee of the Company (the “Audit Committee”) with effect from 23 July 2019 due to her other business engagement.

### INSUFFICIENT NUMBER OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rules 3.10 and 3.10A of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors and at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive directors must represent at least one-third of the board of directors. Pursuant to Rule 3.21 of the Listing Rules, the audit committee of a listed issuer must be comprising of non-executive directors only with a minimum of three members and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

Upon the resignation of Ms. Cao Xinyi as an independent non-executive Director on 23 July 2019, the Board was comprised of six members with four executive Directors and two independent non-executive Directors. As a result, the number of independent non-executive Directors will be below the minimum number as required under the Listing Rules. The Board will also be lacking at least one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The number of members of the Audit Committee will be reduced to two which is below the minimum number prescribed under Rule 3.21 of the Listing Rules.

In order to comply with Rule 3.10, Rule 3.10A and Rule 3.21 of the Listing Rules, the Company is endeavoring to identify a suitable candidate to fill the above mentioned vacancy as soon as practicable and further announcement(s) will be made by the Company as and when appropriate.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

### REVIEW OF INTERIM RESULTS

The unaudited interim results for the six-month period ended 30 June 2019 have been reviewed by the Company's Audit Committee. The Audit Committee meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group, the risk management and internal control systems, and the financial reporting matters.

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

Hong Kong, 26 August 2019



## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	Six months ended 30 June	
		2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
<b>Continuing Operations</b>			
Revenue	7	35,252	91,070
Cost of sales		(32,433)	(84,759)
<b>Gross profit</b>		<b>2,819</b>	<b>6,311</b>
Other income	8	5,874	2,089
Other gains/(losses), net	9	333	(715)
Reversal of provision of allowance for expected credit loss on trade receivables		13,150	–
Provision for expected credit loss on contract assets		(2,115)	–
Selling and distribution expenses		(12,181)	(21,926)
Research and development expenses		(37,354)	(94,988)
Administrative expenses		(34,061)	(69,225)
<b>Operating loss</b>		<b>(63,535)</b>	<b>(178,454)</b>
Finance income		2,022	2,952
Finance costs		(13,281)	(7,842)
Finance costs, net		(11,259)	(4,890)
Share of results of associates		(12,471)	2,163
Loss before tax		(87,265)	(181,181)
Income tax expense	11	(975)	(343)
<b>Loss from continuing operations</b>		<b>(88,240)</b>	<b>(181,524)</b>
Loss from discontinued operation		(2,088)	–
<b>Loss for the period</b>		<b>(90,328)</b>	<b>(181,524)</b>

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	Six months ended 30 June	
		2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
(Loss)/profit for the period from continuing operations attributable to:			
Owners of the Company		(90,572)	(162,867)
Non-controlling interests		2,332	(18,657)
		<b>(88,240)</b>	<b>(181,524)</b>
Loss for the period from discontinued operations attributable to:			
Owners of the Company		(1,087)	–
Non-controlling interests		(1,001)	–
		<b>(2,088)</b>	<b>–</b>
(Loss)/profit for the period attributable to:			
Owners of the Company		(91,659)	(162,867)
Non-controlling interests		1,331	(18,657)
		<b>(90,328)</b>	<b>(181,524)</b>
<b>Loss per share</b>			
<b>From continuing and discontinued operations</b>			
Basic (HK cents per share)	14	(1.49)	(2.65)
Diluted (HK cents per share)	14	(1.49)	(2.65)
<b>From continuing operations</b>			
Basic (HK cents per share)	14	(1.47)	(2.65)
Diluted (HK cents per share)	14	(1.47)	(2.65)

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
<b>Loss for the period</b>	<b>(90,328)</b>	(181,524)
<b>Other comprehensive loss</b>		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<b>1,670</b>	(5,257)
<i>Items that will not be subsequently reclassified to profit or loss:</i>		
Changes in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	<b>(37,269)</b>	(369,352)
Other comprehensive loss, net of tax	<b>(35,599)</b>	(374,609)
<b>Total comprehensive loss for the period</b>	<b>(125,927)</b>	(556,133)
Total comprehensive loss for the period attributable to:		
Owners of the Company	<b>(125,604)</b>	(537,756)
Non-controlling interests	<b>(323)</b>	(18,377)
	<b>(125,927)</b>	(556,133)

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	Notes	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	15	327,112	304,972
Right-of-use assets	16	139,126	–
Intangible assets	17	6,899	10,184
Investment in associates		48,865	61,346
Financial assets at fair value through other comprehensive income	18	792,877	837,246
Prepaid land lease payments		–	80,747
Long-term deposits and prepayments	19	2,193	21,436
<b>Total non-current assets</b>		<b>1,317,072</b>	<b>1,315,931</b>
<b>CURRENT ASSETS</b>			
Prepaid land lease payments		–	2,248
Inventories		4,179	4,000
Contract assets		37,830	14,598
Trade and other receivables	19	184,256	372,394
Loan receivables	20	–	9,731
Pledged bank deposits		196	310
Cash and cash equivalents		498,176	429,611
<b>Total current assets</b>		<b>724,637</b>	<b>832,892</b>
<b>Total assets</b>		<b>2,041,709</b>	<b>2,148,823</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	Notes	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)
<b>EQUITY</b>			
Share capital	21	61,569	61,569
Other reserves	22	1,516,016	1,549,961
Accumulated losses		(313,138)	(221,479)
Equity attributable to owners of the Company		1,264,447	1,390,051
Non-controlling interests		41,541	41,864
<b>Total equity</b>		<b>1,305,988</b>	<b>1,431,915</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Bank and other borrowings	23	130,286	443,677
Lease liabilities	16	33,583	–
Deferred income tax liabilities		62,204	69,705
Total non-current liabilities		226,073	513,382
<b>CURRENT LIABILITIES</b>			
Trade and other payables	24	94,167	141,139
Contract liabilities		4,040	4,043
Lease liabilities	16	2,534	–
Deferred government grants		30,725	22,430
Income tax payable		14,118	13,142
Bank and other borrowings	23	364,064	22,772
Total current liabilities		509,648	203,526
<b>Total liabilities</b>		<b>735,721</b>	<b>716,908</b>
<b>Total equity and liabilities</b>		<b>2,041,709</b>	<b>2,148,823</b>

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Share capital HK\$'000 (Note 21)	Other reserves HK\$'000 (Note 22)	Accumulated losses HK\$'000	Subtotal HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2019	61,569	1,549,961	(221,479)	1,390,051	41,864	1,431,915
Loss for the period	–	–	(91,659)	(91,659)	1,331	(90,328)
Other comprehensive loss for the period:						
Currency translation differences	–	3,324	–	3,324	(1,654)	1,670
Changes in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	–	(37,269)	–	(37,269)	–	(37,269)
Total comprehensive loss for the period	–	(33,945)	(91,659)	(125,604)	(323)	(125,927)
At 30 June 2019 (unaudited)	61,569	1,516,016	(313,138)	1,264,447	41,541	1,305,988

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Share capital HK\$'000 (Note 21)	Other reserves HK\$'000 (Note 22)	Retained earnings/ (accumulated losses) HK\$'000	Subtotal HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2018	61,569	2,159,252	237,644	2,458,465	75,584	2,534,049
Loss for the period	-	-	(162,867)	(162,867)	(18,657)	(181,524)
Other comprehensive (loss)/ income for the period:						
Currency translation differences	-	(5,537)	-	(5,537)	280	(5,257)
Changes in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	-	(369,352)	-	(369,352)	-	(369,352)
Total comprehensive loss for the period	-	(347,889)	(162,867)	(537,756)	(18,377)	(556,133)
Change in shareholding in an existing subsidiary without change of control upon exercise of underlying options	-	(766)	-	(766)	766	-
Share-based compensation	-	2,447	-	2,447	(36)	2,411
At 30 June 2018 (unaudited)	61,569	1,786,044	74,777	1,922,390	57,937	1,980,327

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	<b>58,439</b>	(252,179)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of plant and equipment	(26,365)	(45,893)
Interest received	2,022	2,211
Net proceeds from time deposits	114	184,230
Receipt of loan receivables	9,731	4,361
Dividend received	–	568
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	<b>(14,498)</b>	145,477
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from bank borrowings	27,901	55,135
Repayments of lease liabilities	(1,471)	–
NET CASH GENERATED FROM FINANCING ACTIVITIES	<b>26,430</b>	55,135
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>70,371</b>	(51,567)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<b>429,611</b>	787,477
Effect of foreign exchange rate changes	(1,806)	(5,852)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<b>498,176</b>	730,058

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 1 GENERAL INFORMATION

KuangChi Science Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in the research and development and manufacture of innovative products for future technology businesses, and the provision of innovative technology solutions and other services. The Group mainly operates in the People’s Republic of China (excluding Hong Kong) (the “PRC”) and Hong Kong.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited. The principal place of its business is located at Unit 1220, 12/F, Leighton Road, Causeway Bay, Hong Kong.

The interim condensed consolidated financial information is presented in Hong Kong dollars (“HK\$”), unless otherwise stated.

The interim condensed consolidated financial information has been approved for issue by the Board on 26 August 2019. The interim condensed consolidated financial information has not been audited or reviewed by the external auditor.

### 2 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

This interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by HKICPA.

The interim condensed consolidated financial information has been prepared on the historical cost basis, except for financial assets at fair value through other comprehensive income which are measured at fair values.



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the interim condensed consolidated financial information for the six months ended 30 June 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2018.

#### (a) New and amended standards adopted by the Group

In the current period, the Group has applied the following new standards and amendments to HKFRSs for the first time for their reporting period commencing 1 January 2019:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Venture
Amendments to HKFRSs	Annual Improvements to HKFRSs Standards 2015–2017 Cycle

The impacts of the adoption of HKFRS 16 Leases have been summarised in note 4 below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group’s accounting policies.

#### (b) Impact of standards issued but not yet applied by the Group

The following new standards and amendment to standards and interpretations have been issued but are not mandatory for the financial period beginning 1 January 2019 and have not been early adopted:

Amendments to HKFRS 3	Definition of a Business <sup>(1)</sup>
Amendments to HKAS 1 and HKAS 8	Definition of material <sup>(1)</sup>
HKFRS 17	Insurance contracts <sup>(2)</sup>
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate and joint venture <sup>(3)</sup>

<sup>(1)</sup> Effective for the Group for annual period beginning on 1 January 2020.

<sup>(2)</sup> Effective for the Group for annual period beginning on 1 January 2021.

<sup>(3)</sup> Effective date to be determined.



## 4 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the interim condensed consolidated financial information of the Group.

### 4.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following key changes in accounting policies in accordance with the transition provisions of HKFRS 16.

#### *Lessee accounting*

##### (a) Lease assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

Leases are initially recognised as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets leased by the Group are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentive received;
- any initial direct costs; and
- restoration costs.

## 4 CHANGES IN ACCOUNTING POLICIES (Continued)

### 4.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

#### *Lessee accounting (Continued)*

##### (a) Lease assets (Continued)

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of profit or loss. Short-term leases are leases with a lease term of 12 months or less.

##### (b) Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.



## 4 CHANGES IN ACCOUNTING POLICIES (Continued)

### 4.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

#### *Lessee accounting (Continued)*

#### (b) Lease liabilities (Continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which case the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

### 4.2 Transition and summary of effects arising from initial application of HKFRS 16

The Group has applied HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be reported under HKFRS 17 and related interpretations as allowed by the transition provision under HKFRS 16.

On the adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously classified as operating leases under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted by approximately 6.5%, with reference to the Group's incremental borrowing rate. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to the consolidated statement of profit or loss in the period in which it is incurred using effective interest method.

## 4 CHANGES IN ACCOUNTING POLICIES (Continued)

### 4.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

The following table summarized the impact of transition to HKFRS 16 on the consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows:

	Notes	Carrying amounts previously reported at 31 December 2018 HK\$'000	Reclassification/ adjustment HK\$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000
<b>Non-current assets</b>				
Prepaid land lease payments	(a)	80,747	(80,747)	–
Long term deposits and prepayments	(b)	18,455	(18,455)	–
Right-of-use assets		–	144,838	144,838
<b>Current assets</b>				
Prepaid land lease payments	(a)	2,248	(2,248)	–
Trade and other receivables	(b)	7,144	(7,144)	–
<b>Current liabilities</b>				
Lease liabilities		–	2,592	2,592
<b>Non-current liabilities</b>				
Lease liabilities		–	33,652	33,652

- (a) Upfront payments for leasehold lands in the PRC were classified as prepaid land lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid land lease payments amounting to HK\$2,248,000 and HK\$80,747,000, respectively, were reclassified to right-of-use assets.
- (b) Upfront payments for some leases were classified as rental prepayments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of rental prepayments on the consolidated statement of financial position amounting to HK\$7,144,000 and HK\$18,455,000, respectively, were reclassified to right-of-use assets.

## 5 ESTIMATES

The preparation of the interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the interim condensed consolidated financial information, the significant judgements made by management in applying the accounting policies of the Group and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

## 6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### 6.1 Financial risk factors

The activities of the Group expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2018.

### 6.2 Fair value estimation

#### (a) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows the underneath table.

## 6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

### 6.2 Fair value estimation (Continued)

#### (a) Fair value hierarchy (Continued)

The following table presents the financial assets and financial liabilities of the Group which are measured and recognised at fair value at 30 June 2019 and 31 December 2018 on a recurring basis:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>At 30 June 2019</b>				
<b>Financial assets</b>				
Financial assets at fair value through other comprehensive income				
– Listed equity security	756,005	–	–	756,005
– Unlisted equity securities	–	–	36,872	36,872
<b>At 31 December 2018</b>				
<b>Financial assets</b>				
Financial assets at fair value through other comprehensive income				
– Listed equity security	806,282	–	–	806,282
– Unlisted equity securities	–	–	30,964	30,964

The policy of the Group is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

## 6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

### 6.2 Fair value estimation (Continued)

#### (a) Fair value hierarchy (Continued)

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.
- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

## 6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

### 6.2 Fair value estimation (Continued)

#### (b) Valuation techniques used to determine fair values (level 3)

Financial instruments	Fair value as at 30 June 2019 HK\$'000	Fair value hierarchy	Valuation techniques inputs	Significant inputs
(1) Unlisted securities classified as financial assets at fair value through other comprehensive income	36,872	Level 3	Discounted cash flow model is adopted and the key inputs are revenue growth rate, perpetual growth rate, terminal growth rate and discount rate	<ul style="list-style-type: none"> <li>Revenue growth rate ranging from 6% to 7 times</li> <li>Terminal growth rate of 3%</li> <li>Discount rate of 17%-26%</li> </ul>

#### (c) Valuation processes

The finance department of the Group includes a team that performs the valuation of financial asset required for financial reporting purposes, including Level 3 fair values. This team reports directly to the Chief Financial Officer (“CFO”) and the Audit Committee (“AC”). Discussion of valuation processes and results are held between the CFO, AC and the valuation team at least once every quarter.



## 7 SEGMENT INFORMATION

The financial information provided to the chief operating decision-maker (“CODM”) does not contain profit or loss information of each product line or each market segment and the CODM review the operating results of the Group on a consolidated basis. Therefore, the operation of the Group constitutes one single reportable segment and no further analysis of segments is presented.

(a) An analysis of the Group’s revenue for the period is as follows:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>From continuing operations</b>		
<b>Revenue from contracts with customers</b>		
<b>within the scope of HKFRS 15</b>		
Disaggregated by major products or service lines		
– Sale of “Cloud” and provision of related maintenance services	–	15,466
– Sale of chips	7,311	75,604
– Sale of super intelligent tracking system	27,941	–
	<b>35,252</b>	91,070

## 7 SEGMENT INFORMATION (Continued)

### (b) Geographical information

The Group operates in two principal geographical areas – the PRC and Hong Kong.

Information about the revenue from operations of the Group from external customers is presented based on the location of the goods delivered. Information about the non-current assets of the Group is presented based on the geographical locations of the assets.

	Revenue from external customers		Non-current assets*	
	Six months ended 30 June		30 June	31 December
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(audited)
PRC	27,941	15,466	475,245	417,181
Hong Kong	7,311	75,604	85	158
	35,252	91,070	475,330	417,339

\* Non-current assets exclude financial assets at fair value through other comprehensive income and investment in associates.

## 8 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
<b>From continuing operations</b>		
Dividend income from equity instruments measured at fair value through other comprehensive income	–	568
Government grants	4,158	856
Sundry income	1,716	665
	5,874	2,089

## 9 OTHER GAINS/(LOSSES), NET

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
<b>From continuing operations</b>		
Loss on disposal of plant and equipment	–	(614)
Exchange gains/(losses), net	333	(101)
	<b>333</b>	<b>(715)</b>

## 10 OPERATING LOSS

Operating loss has been arrived at after charging:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
<b>From continuing operations</b>		
Amortisation of intangible assets	2,565	555
Cost of inventories sold	32,433	84,646
Depreciation of plant and equipment (exclude right-of-use assets)	2,666	7,759
Depreciation of right-of-use assets	5,858	–
Directors' emoluments	2,269	2,982
Operating lease expenses for office premises and warehouses relating to short term leases	6,351	14,774
Reversal of provision of allowance for expected credit loss on trade receivable	(13,150)	–
Provision of allowance for expected credit loss on contract assets	2,115	–
Salaries, wages and other benefits	49,466	90,082
Share-based payments	–	2,513

## 11 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
<b>From continuing operations</b>		
Current income tax expenses		
Hong Kong profits tax	973	343
PRC Corporate Income Tax	2	–
	<b>975</b>	<b>343</b>

Notes:

- (i) During the six months ended 30 June 2019 and 2018, Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profit.
- (ii) The PRC Corporate Income Tax represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the PRC in which the Group operates.

The tax rate applicable to subsidiaries in the PRC is 25% (2018:25%), except for the PRC subsidiaries established in Qianhai and a PRC subsidiary that was approved as High and New Technology Enterprise which is subject to PRC Corporate Income Tax at a rate of 15% for 3 years from 2016 to 2019 (2018:15%).

## 12 DIVIDEND

No dividend was paid, declared or proposed by the Company during the six months ended 30 June 2019.

### 13 DISCONTINUED OPERATION

At a special meeting of shareholders of Martin Aircraft Company Limited (“MACL”) held on 1 May 2018, the shareholders approved the removal of MACL from the official list of the Australian Security Exchange (the “ASX”) and the delisting of its ordinary shares. As part of the delisting process, MACL has arranged to transition its shares to the USX (a New Zealand unlisted share trading platform) to allow shareholders to continue to trade their shares. MACL was delisted from ASX on 4 June 2018 and the trading of MACL’s shares on USX commenced on 7 June 2018.

MACL faced difficulties in developing its products into commercial use and all business operations were stopped in late 2018. Therefore, MACL was classified as a discontinued operation.

The operating results of the discontinued operation were as follows:

	<b>Unaudited Six months ended 30 June 2019 HK\$’000</b>
Revenue	–
Other income	1,267
Other losses, net	(85)
Research and development expenses	(434)
Selling and distribution expenses	(5)
Administrative expenses	(2,832)
Operating loss	(2,089)
Finance income	2
Finance costs	(1)
Finance costs, net	1
Loss before tax	(2,088)
Income tax expenses	–
Loss for the period from discontinued operation	(2,088)

Basic and diluted loss per share from the discontinued operation is HK\$0.02 cents (2018: not applicable), based on the loss for the period attributable to owners of the Company from the discontinued operation of approximately HK\$1,087,000 (2018: not applicable) and the weighted average number of 6,156,929,000 shares.

The computation of diluted loss per share does not assume the exercise of the outstanding shares options issued since the assumed exercise would result in a decrease in loss per share.

## 14 LOSS PER SHARE

### From continuing operations

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

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	(91,659)	(162,867)
Add: loss for the period from discontinued operations	1,087	–
Loss for the purpose of basic and diluted loss per share from continuing operations	(90,572)	(162,867)

Number of shares	Unaudited	
	Six months ended 30 June	
	2019	2018
	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	6,156,929	6,156,929
Effect of dilutive potential ordinary shares: – Share options of the Company	–	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	6,156,929	6,156,929

## 14 LOSS PER SHARE (Continued)

### From continuing and discontinued operations

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

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	<b>(91,659)</b>	(162,867)

For the six months ended 30 June 2019 and 2018, the computation of diluted loss per share does not assume the exercise of the outstanding share options of the Company since the assumed exercise would result in a decrease in loss per share.

## 15 PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Furniture and fixture	Office equipment	Leasehold improvements	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>COST</b>							
At 1 January 2018	65,526	617	17,613	12,126	6,228	191,433	293,543
Additions	229	-	5,823	205	228	110,061	116,546
Disposals	(41,212)	(387)	(1,587)	(3,539)	(63)	-	(46,788)
Disposal through deemed disposal of a subsidiary	-	-	(1,068)	(222)	-	-	(1,290)
Currency translation differences	(1,754)	(14)	(783)	(445)	(265)	(14,273)	(17,534)
<b>At 31 December 2018 and 1 January 2019</b>	<b>22,789</b>	<b>216</b>	<b>19,998</b>	<b>8,125</b>	<b>6,128</b>	<b>287,221</b>	<b>344,477</b>
Additions	36	-	1,175	-	-	25,154	26,365
Disposals	-	-	(18)	-	-	-	(18)
Currency translation differences	(8)	-	(29)	(6)	(4)	(677)	(724)
<b>At 30 June 2019</b>	<b>22,817</b>	<b>216</b>	<b>21,126</b>	<b>8,119</b>	<b>6,124</b>	<b>311,698</b>	<b>370,100</b>

## 15 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Plant and machinery HK\$'000	Furniture and fixture HK\$'000	Office equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>							
At 1 January 2018	46,908	441	9,987	4,628	3,170	-	65,134
Depreciation	2,708	92	3,886	2,527	817	-	10,030
Disposals	(39,639)	(330)	(798)	(2,764)	(5)	-	(43,536)
Disposal through deemed disposal of a subsidiary	-	-	(314)	(146)	-	-	(460)
Provision for impairment	7,951	-	1,427	231	411	-	10,020
Currency translation differences	(999)	(11)	(297)	(203)	(173)	-	(1,683)
At 31 December 2018 and 1 January 2019	16,929	192	13,891	4,273	4,220	-	39,505
Depreciation	704	19	1,553	914	371	-	3,561
Disposals	-	-	(1)	-	-	-	(1)
Currency translation differences	(15)	-	(35)	(19)	(8)	-	(77)
At 30 June 2019	17,618	211	15,408	5,168	4,583	-	42,988
<b>CARRYING AMOUNTS</b>							
At 30 June 2019	5,199	5	5,718	2,951	1,541	311,698	327,112
At 31 December 2018	5,860	24	6,107	3,852	1,908	287,221	304,972



## 16 LEASES

### (a) Right-of-use assets

	Leases of offices and showroom HK\$'000	Land HK\$'000	Total HK\$'000
Balance as at 1 January 2019	61,843	82,995	144,838
Depreciation charge	(4,556)	(1,302)	(5,858)
Exchange translation	33	113	146
Balance as at 30 June 2019 (unaudited)	57,320	81,806	139,126

### (b) Lease liabilities

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Non-current	33,583	–
Current	2,534	–
	36,117	–

### (c) Amounts recognised in the condensed consolidated statement of profit or loss

	Unaudited Six months ended 30 June 2019 HK\$'000	2018 HK\$'000
Depreciation charge of right-of-use assets	5,858	–
Interest expense (included in finance cost)	1,198	–
Expense relating to short-term leases (note 10)	6,351	14,774
	13,407	14,774

## 17 INTANGIBLE ASSETS AND GOODWILL

	Goodwill HK\$'000	Capitalised development cost HK\$'000	Software HK\$'000	Technical knowhow and patents HK\$'000	Total HK\$'000
<b>COST</b>					
At 1 January 2018	41,628	105,584	5,757	78,881	231,850
Additions	–	–	–	15,612	15,612
Deemed disposal of a subsidiary	(9,264)	–	–	(7,018)	(16,282)
Currency translation differences	(1,641)	(1,226)	(67)	(2,293)	(5,227)
At 31 December 2018 and 1 January 2019	30,723	104,358	5,690	85,182	225,953
Additions	–	–	–	–	–
Currency translation differences	–	(1,432)	(78)	(134)	(1,644)
At 30 June 2019	30,723	102,926	5,612	85,048	224,309
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>					
At 1 January 2018	32,364	105,584	5,757	72,707	216,412
Amortisation	–	–	–	6,147	6,147
Deemed disposal of a subsidiary	–	–	–	(1,986)	(1,986)
Currency translation differences	(1,641)	(1,226)	(67)	(1,870)	(4,804)
At 31 December 2018 and 1 January 2019	30,723	104,358	5,690	74,998	215,769
Amortisation	–	–	–	3,337	3,337
Currency translation differences	–	(1,432)	(78)	(186)	(1,696)
At 30 June 2019	30,723	102,926	5,612	78,149	217,410
<b>CARRYING AMOUNTS</b>					
At 30 June 2019	–	–	–	6,899	6,899
At 31 December 2018	–	–	–	10,184	10,184

## 18 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Listed security:		
– Equity security (note)	756,005	806,282
Unlisted securities:		
– Equity securities	36,872	30,964
	<b>792,877</b>	<b>837,246</b>

Note: As at 30 June 2019, the Group hold 71,528,751 (31 December 2018: 71,528,751) ordinary shares of Kuang-Chi Technologies Co., Ltd. (“KCT”), representing 3.32% (31 December 2018: 3.32%) of the issued ordinary shares of KCT. Shenzhen Kuang-Chi Hezhong Technology Limited, which is partially owned by the directors of the Company, Dr. Liu Ruopeng and Dr. Luan Lin with shareholding of 35.09% and 15.79% respectively, holds more than 5% shareholding of KCT. KCT is a company listed on the Shenzhen Stock Exchange. The increase in the number of shares of KCT was resulted from a capital restructuring pursuant to which additional 7 ordinary shares were allotted for every 10 ordinary shares held during the year ended 31 December 2018. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in financial assets at fair value to other comprehensive income as they believe that recognising short-term fluctuations in these investments in profit or loss would not be consistent with the Group’s strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

## 19 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Trade receivables	127,373	370,644
Less: allowance for expected credit loss	(12,756)	(25,788)
Trade receivables, net	114,617	344,856
Deposits and other receivables	2,539	3,341
Interest receivables	875	3,636
Prepayment to suppliers	62,773	16,051
Prepaid rentals	5,645	32,105
	<b>186,449</b>	399,989
Less: provision for impairment of prepayment and doubtful receivables	–	(6,159)
	<b>186,449</b>	393,830
Less: non-current portion	(2,193)	(21,436)
	<b>184,256</b>	372,394

The following is an ageing analysis of trade receivables presented based on date of revenue recognition and net of allowance as at 30 June 2019 and 31 December 2018:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
0 – 90 days	–	120,593
91 – 180 days	6,802	11,650
181 – 365 days	1,782	25,617
1 to 2 years	21,458	84,791
over 2 years	84,575	102,205
	<b>114,617</b>	344,856

## 19 TRADE AND OTHER RECEIVABLES (Continued)

Movements in the loss allowance account for the trade receivables and contract assets are as follows:

	<b>Trade receivables</b> HK\$'000	<b>Contract assets</b> HK\$'000	<b>Total</b> HK\$'000
At 1 January 2018	24,916	–	24,916
Provision for impairment loss	107,513	7,884	115,397
Currency translation differences	(5,262)	(312)	(5,574)
Uncollectible amounts written off	(101,379)	(6,946)	(108,325)
At 31 December 2018 and 1 January 2019	25,788	626	26,414
(Reversal of provision)/provision for impairment loss (note)	(13,150)	2,115	(11,035)
Currency translation differences	118	(38)	80
At 30 June 2019	12,756	2,703	15,459

Note:

During the six months ended 30 June 2019, the Group successfully recovered total trade receivables of approximately RMB93,200,000 related to sale of cloud in previous years, and accordingly reversed the related provision of allowance for credit loss on trade receivables of approximately HK\$13,150,000.

## 20 LOAN RECEIVABLES

	Notes	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Loan to a related party		–	9,731
Loans to third parties	(a)	2,368	2,368
Loan to an associate	(b)	22,378	22,378
		24,746	34,477
Less: provision for impairment of loan receivables	(a), (b)	(24,746)	(24,746)
		–	9,731

Notes:

- (a) As at 30 June 2019 and 31 December 2018, the balance represented a loan to Beyond Verbal of HK\$2,368,000, which is unsecured, interest bearing at 6% per annum and mature on 31 March 2018. The loan was fully impaired in 2017 as management considered the recoverability of the loans is remote. No repayment was made by Beyond Verbal during the Period.
- (b) As at 30 June 2019 and 31 December 2018, the balance represented a loan to Solar Ship of HK\$22,378,000, which is secured by all of the present and future undertaking and personal property of the associate. CAD2,500,000 (approximately HK\$15,759,000) of the loan is interest-free and CAD1,050,000 (approximately HK\$6,619,000) is interest-bearing at 10% per annum, both of which are repayable on demand.

During the year ended 31 December 2017, management recognised full provision for impairment to the loans to Solar Ship. No repayment was made by Solar Ship during the Period.

## 21 SHARE CAPITAL

Ordinary shares	Number of shares	Equivalent to HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	7,316,666,668	73,167
Issued and fully paid:		
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	6,156,928,860	61,569

## 22 OTHER RESERVES

	Share premium HK\$'000	Financial assets at fair value through other comprehensive income HK\$'000	Capital reserve HK\$'000 (Note a)	Contributed surplus HK\$'000 (Note b)	Share - based payment reserve HK\$'000 (Note c)	Exchange translation HK\$'000	Total HK\$'000
At 1 January 2019	2,339,550	(902,684)	17,900	103,941	46,545	(55,291)	1,549,961
Currency translation differences	-	-	-	-	-	3,324	3,324
Fair value changes of financial assets at fair value through other comprehensive income, net of deferred tax	-	(37,269)	-	-	-	-	(37,269)
Other comprehensive loss for the period	-	(37,269)	-	-	-	3,324	(33,945)
At 30 June 2019 (unaudited)	2,339,550	(939,953)	17,900	103,941	46,545	(51,967)	1,516,016

## 22 OTHER RESERVES (Continued)

	Share premium	Financial assets at fair value through other comprehensive income	Capital reserve	Contributed surplus	Share – based payment reserve	Exchange translation	Total
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000 (Note c)	HK\$'000	HK\$'000
At 1 January 2018 as restated	2,339,550	(363,041)	17,683	103,941	38,479	22,640	2,159,252
Currency translation differences	-	-	-	-	-	(78,136)	(78,136)
Deemed disposal of a subsidiary	-	-	-	-	-	205	205
Fair value changes of financial assets at fair value through other comprehensive income, net of deferred tax	-	(539,643)	-	-	-	-	(539,643)
Other comprehensive loss for the year	-	(539,643)	-	-	-	(77,931)	(617,574)
Share-based payment compensation	-	-	-	-	8,066	-	8,066
Change in shareholding in an existing subsidiary without change of control	-	-	217	-	-	-	217
At 31 December 2018	2,339,550	(902,684)	17,900	103,941	46,545	(55,291)	1,549,961

### Notes:

- (a) The balance of capital reserve represents the capital reserve arising from the Group's restructuring which took place in 1992.
- (b) The balance of contributed surplus arose as a result of the Company's capital reduction exercises which took place in the financial years of 2003 and 2006.
- (c) The balance of share-based payment reserve represents share options granted on 26 August 2014 and 30 September 2015.



## 23 BANK AND OTHER BORROWINGS

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Bank borrowings		
– Within 1 year	22,754	22,772
– Between 1 and 2 years	22,754	22,772
– Between 2 and 5 years	107,532	79,325
	<b>153,040</b>	124,869
Other borrowings		
– Within 1 year	341,310	–
– Between 1 and 2 years	–	341,580
– Between 2 and 5 years	–	–
	<b>341,310</b>	341,580
Total bank and other borrowings	<b>494,350</b>	466,449

As at 30 June 2019, the bank borrowings carried interest of approximately 7.35% p.a. (31 December 2018: 6.7% to 7.4% p.a.) which was secured by the prepaid land lease payments and the construction-in-progress, amounting to HK\$81,806,000 (31 December 2018: HK\$82,995,000) and HK\$311,698,000 (31 December 2018: HK\$287,221,000) was guaranteed by the Company and a company which is controlled by Dr. Liu Ruopeng.

As at 30 June 2019, the other borrowing carried interest at fixed interest rate of 6.5% p.a. (31 December 2018: 6.5% p.a.) which was secured by the Group's investment in KCT classified as financial assets at fair value to other comprehensive income with a carrying amount of HK\$756,005,000 (31 December 2018: HK\$806,282,000) and was guaranteed by the Company's shareholders and a company which is controlled by Dr. Liu Ruopeng.

As at 30 June 2019, the Group entitled to total available banking facilities amounting approximately HK\$568,850,000 (31 December 2018: HK\$398,510,000), HK\$415,810,000 (31 December 2018: HK\$273,641,000) of which were not utilised.

## 24 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Trade payables	44,197	25,927
Accrued employee benefits	5,278	16,420
Other tax payables	826	15,018
Other payables and accruals	5,899	44,091
Consideration payable for acquisition of non-controlling interest	–	6,069
Accrued construction costs	37,967	33,614
	<b>94,167</b>	141,139

The following is an ageing analysis of trade payables presented based on the invoice date at the end of each reporting period.

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
0 – 90 days	3,203	4,057
Over 90 days	40,994	21,870
	<b>44,197</b>	25,927

## 25 CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the period/year but not yet incurred is as follows:

	<b>Unaudited 30 June 2019 HK\$'000</b>	Audited 31 December 2018 HK\$'000
Significant capital expenditure contracted for at the end of the reporting period but not recognized as liabilities		
Property, plant and equipment	<b>170,351</b>	204,788

## 26 RELATED PARTY TRANSACTIONS

Name of parties	Nature of transactions	<b>Unaudited Six months ended 30 June</b>	
		<b>2019 HK\$'000</b>	2018 HK\$'000
Kuang-chi Metamaterial	Purchase of Optical Sensing Station and Wearable Smart Helmets	<b>6,538</b>	–

Note:

Kuang-chi Metamaterial is a direct wholly owned subsidiary of Kuang-chi Technologies Co., Ltd. The above transaction was conducted in the normal course of the business of the Company and charged at terms mutually agreed by the parties concerned.

Saved as disclosed above and elsewhere in the interim condensed consolidated financial information, there was no other related party transaction during the periods ended 30 June 2019 and 2018.

## 27 SUBSEQUENT EVENT

There were no material events occurred after the period ended 30 June 2019.