

KUANGCHI SCIENCE LIMITED

Incorporated in Bermuda with limited liability

Stock Code: 439

2020 Interim Report



KUANGCHI 光啟科學



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Liu Ruopeng (*Chairman*)
Dr. Luan Lin (*Chief Executive Officer & Chief Technology Officer*)
Dr. Zhang Yangyang
Dr. Ji Chunlin (*appointed on 1 February 2020*)
Mr. Dorian Barak (*resigned on 31 January 2020*)

Non-executive Director

Mr. Li Chiu Ho (*appointed on 23 March 2020*)

Independent Non-executive Directors

Dr. Wong Kai Kit
Mr. Choi Wing Koon
Dr. Deng Ke (*appointed on 27 July 2020*)
Dr. Liu Jun (*resigned on 27 July 2020*)

AUDIT COMMITTEE

Mr. Choi Wing Koon (*Chairman*)
Dr. Wong Kai Kit
Dr. Deng Ke

REMUNERATION COMMITTEE

Dr. Wong Kai Kit (*Chairman*)
Dr. Zhang Yangyang
Dr. Deng Ke

NOMINATION COMMITTEE

Dr. Liu Ruopeng (*Chairman*)
Dr. Wong Kai Kit
Dr. Deng Ke

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

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CORPORATE INFORMATION

REGISTRARS

Hong Kong

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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

The Group is principally engaged in the research and development as well as manufacture of innovative products for the future technology business, and the provision of other innovative technology service solutions (the “Future Technology Business”).

During the Period, the Group’s turnover amounted to HK\$61,379,000, representing an increase of 74.11% compared with the period ended 30 June 2019 (30 June 2019: the turnover was HK\$35,252,000). Net loss for the Period was HK\$11,617,000, representing a decrease of 87.14% compared with the period ended 30 June 2019 (30 June 2019: net loss was HK\$90,328,000). Compared with the same period of 2019, the Group saw a significant fall in the losses during the Period owing to increase in its gross profit margin from 8% in the corresponding period in 2019 to 29% for the current Period. The substantial increase in gross profit margin was attributable to the Group’s launch of a novel type of Wearable Smart Helmets (developed from wearable smart helmets purchased from the Kuang-Chi Technologies Co., Ltd’s group pursuant to the Master Procurement Agreement dated 30 March 2020, details refer to the Company’s circular dated 6 May 2020) during the Period, sales of which accounted for 75.6% of the Group’s revenue for the Period. Moreover, as a result of the Group’s optimization of the business and enhancement of the internal management, R&D expenses and administrative expenses for the Period were reduced by approximately 63.4% and approximately 28.7%, respectively, as compared with the same period in 2019.

The Future Technology Business – in-depth development of the vertical business sectors

The Group focuses on future technology business. It is currently developing and integrating different future technologies, like “AI” technology and “future space” technology, and strives to build future intelligent cities and provides a comprehensive range of innovative products, services and solutions, thereby enhancing service efficiency, satisfying residents’ needs, improving the quality of life and, in particular, solving various problems that are faced by the mankind.

With regard to the “AI” technology, the Group has long been committed to the research, manufacture and application development of “AI” technology-related algorithms, which is a platform for big data analysis and professional AI-infused products for the vertical sectors based on such algorithms and platform. The Group’s AI algorithms were first applied to aeronautic equipments such as Cloud and long-endurance drones and such technology has been subsequently developed into our principal business, thus enabling the Group to create an AI system with AI algorithms as the core technology. The AI system could access a variety of fixed or mobile front-end hardware devices and empower these devices with AI. On this basis, and with the Group’s long-term experience in system integration, the Group has integrated front-end hardware to create an integrated solution comprising professional system integration, installation, debugging, operation and maintenance services.

MANAGEMENT DISCUSSION AND ANALYSIS

When the Wearable Smart Helmet, the Group's first mobile front-end hardware device, was accessed and empowered, its powerful integrated functions have effectively enhanced various features such as real-time dynamic acquisition of data and intelligent analysis of big data, and effectively increased business efficiency.

During the Period, the Group carried out in-depth innovations in the technology for mobile front-end hardware devices by launching a novel type of Wearable Smart Helmet – a thermal imaging smart helmet with a view to providing assistance in the fight against the pandemic. The novel thermal imaging smart helmet has a number of cutting-edge technologies (such as infrared thermal imaging, augmented reality display, communication sensing, materials for the development of the cutting-edge aerospace technology, and various “AI” algorithms). It has a contactless temperature measurement feature. In airports, transportation hubs, subways, shopping malls and other places where it is easy for crowds to gather, contactless temperature measurement devices can quickly screen out people with a fever, thus significantly increasing the efficiency of temperature measurement and minimizing the risk associated with public gatherings. This is a major reason why the Wearable Smart Helmets were purchased by many customers as anti-pandemic products. During the Period, the Wearable Smart Helmets were sold to 36 countries and regions at home and abroad, achieving a substantial increase in sales compared with the sales of Wearable Smart Helmets during the corresponding period in 2019.

During the Period, the project sites of the Group, namely the Bund area in Shanghai, the railway station along Yangtze River and Jialing River in Chongqing, the commercial street in Foshan of Shunde, etc., served as the main sites for demonstrating the application of the Group's product “AI Overlay Network” in China, and continue to exert strong application value and receive recognition from our customers, thus laying a sound foundation for the Company to promote the “AI” technology for national applications on an ongoing basis. The Group will continue to devote its efforts to the development of, and the making of, a breakthrough in new technologies, which will be integrated consistently to create stronger total solutions so as to enhance business capabilities.

The management believes that with the evolution of the 5G network, the Company's “AI” technology will gradually be applied to more vertical industries in line with its own development goals and industrial needs, in particular the acceleration of the build-up of smart cities. AI will become a new impetus that boosts economic and social development, generates enormous demand for AI applications and holds market prospects in the field of smart cities.

During the Period, the Group had not committed further resources to the subsequent R&D of the “Future Space” technology. Instead, existing R&D achievements such as “Cloud”, “Drone” and other aerospace products were primarily utilized to provide a data basis for the “AI” technology.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade receivables

With reference to the 2019 Annual Report, details about the impairment losses on trade receivables and contract assets were updated as follows:

For the customer located in Chengdu, PRC (the “Chengdu Customer”), the Group and the management had initiated a number of negotiations with the Chengdu Customer during the first half of 2020. During the Period, the Group received RMB45.0 million (equivalent to HK\$50.3 million) from the Chengdu Customer, being partial settlement of outstanding trade receivables due to the Group. The management will continue to communicate and negotiate with this customer in the second half of the year regarding the remaining outstanding trade receivables.

For the customer located in Guizhou (the “Guizhou Customer”) and another customer located in Dongguan (the “Dongguan Customer”), both in the PRC, their business operations in the PRC were generally hit by the pandemic to a certain extent during the Period. Moreover, a number of areas were under a partial lockdown to prevent the spread of the virus, which led to difficulties for the management to continue the negotiations with the Dongguan Customer and the Guizhou Customer. During the Period, our project team mainly held video conferences with these customers regarding the payment recovery plan, and introduced our novel smart wearable products to them. It is expected that the customers will fully cooperate with us in the negotiation, and they also expressed keen interest in our new products. Those customers need to conduct internal research and report to their superiors. The management will continue to communicate and negotiate with these customers in the second half of the year to resolve the problem regarding their outstanding trade receivables, or to recover the receivables through other means. Since the outstanding amounts due from the Dongguan Customer and the Guizhou Customer were not yet settled during the Period, accordingly, full impairment provisions remained for the relevant trade receivables and contract assets.

Manpower development and build-up

With regard to manpower build-up, the Group strengthened the talent nurturing system and designed new employee development system and mechanism to enhance staff quality. The Group continues to focus on attracting and nurturing high-calibre employees as a core strategy by recruiting people who are experienced in the “AI” technology and high-tech software development-related fields around the globe. During the Period, the Group focused on the build-up of a team of high-calibre employees, kept optimizing the composition of our employees, strengthened the vitality of our employees, modified the employee succession plans in a timely manner in line with the Company’s business development, and raised cost efficiency. As at 30 June 2020, the Group successively recruited 178 high-calibre people, of whom 105 were R&D employees, and more than 21% of them have a masters degree or above. This has provided a strong talent foundation for the Group, which in turn strengthened its core competitiveness.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the Period (2019: Nil).

CAPITAL STRUCTURE

As at 30 June 2020, the Company had 6,156,928,860 ordinary shares of HK\$0.01 each in issue.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group's total shareholders' funds amounted to approximately HK\$900,747,000 (31 December 2019: HK\$1,048,372,000). Total assets were approximately HK\$1,603,892,000 (31 December 2019: HK\$1,842,236,000) and total liabilities were approximately HK\$703,145,000 (31 December 2019: HK\$793,864,000).

As at 30 June 2020, the Group had cash and cash equivalents of approximately HK\$113,982,000 (31 December 2019: HK\$245,879,000) and no pledged bank deposits (31 December 2019: HK\$193,000). The gearing ratio as of 30 June 2020, defined as the percentage of the total interest bearing debt, including lease liabilities and bank and other borrowings of approximately HK\$1,162,000 (31 December 2019: HK\$1,766,000) and HK\$496,178,000 (31 December 2019: HK\$504,405,000), respectively to net asset value, was approximately 55.21% (31 December 2019: 48.28%).

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.

Particulars of bank and other borrowings of the Group as at 30 June 2020 are set out in note 22 to the consolidated financial information.

CHARGES ON ASSETS

As at 30 June 2020, the Group's bank borrowings of approximately HK\$167,318,000 (31 December 2019: HK\$169,155,000) were secured by the right-of-use assets and the construction-in-progress amounted to HK\$76,626,000 (31 December 2019: HK\$79,251,000) and HK\$371,519,000 (31 December 2019: HK\$363,659,000) respectively, entire equity interest in one of the Company's subsidiary and were guaranteed by the Company and a company controlled by Dr. Liu Ruopeng.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2020, the Group's other borrowings of approximately HK\$328,860,000 (31 December 2019: HK\$335,250,000) were secured by the Group's investment in Kuang-Chi Technologies Co., Ltd. classified as financial assets at fair value through other comprehensive income with a carrying amount of HK\$568,471,000 (31 December 2019: HK\$731,390,000) and guaranteed by the Company's shareholders and a company controlled by Dr. Liu Ruopeng.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no significant contingent liabilities (31 December 2019: Nil).

RISK MANAGEMENT

During the period under review, the Group regularly reviewed the risk and credit control systems in order to improve the overall controlling system and mitigate credit risk. This also ensures that the Group is capable of effectively conducting business operations and facilitates further development. There have been no significant changes in the Group's risk management policy since the year-end date last year.

IMPACTS OF COVID-19 PANDEMIC

The Group's operation was mainly located in Shenzhen, China. Due to the impacts of COVID-19 pandemic since early 2020, the Group strictly followed relevant prevention and quarantine measures imposed by the government. We arranged special vehicles to take employees to and from work, kept monitoring employees' body temperature within the work area and provided them with essential protective items (e.g. face mask and hand sanitizer). Through the above measures, the Company became one of the first lot of entities in Shenzhen who could resume normal operation since the outbreak of pandemic. The Group resumed operation in the second week after the Chinese New Year holiday.

Due to the market demands of the Smart Wearable Helmet, the Group's revenue increased significantly compared with corresponding period of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

Investment in Kuang-Chi Technologies Co., Ltd. (“KCT”)

KCT, a PRC company listed on the Shenzhen Stock Exchange (stock code: 002625), is principally engaged in developing innovative advanced technology and its core business is in metamaterial intelligent structure and equipment research, as well as the manufacture of seat function components for automobiles. The Group held 71,528,751 ordinary shares of KCT, which represented approximately 3.32% of the KCT issued shares. The carrying amount of KCT as at 30 June 2020 is HK\$568,471,000 (31 December 2019: HK\$731,390,000), which represented 35.44% (31 December 2019: 39.70%) of the total assets of the Group. A fair value loss of HK\$126,972,000 for the six months ended 30 June 2020 (31 December 2019: a fair value loss of HK\$59,950,000) was recognised in other comprehensive loss. No dividend from KCT for the six months ended 30 June 2020 (31 December 2019: Nil) was received by the Group.

Please refer to 2019 Annual Report for other details of our investment in KCT.

Save as disclosed above, the Group did not have any other significant investments 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.

CHARGES ON THE GROUP’S ASSETS

As at 30 June 2020, certain assets of the Group were pledged to secure banking facilities granted to the Group as follows:

	Unaudited 30 June 2020 HK\$’000	Audited 31 December 2019 HK\$’000
Financial assets at fair value through other comprehensive income – Shares in KCT	568,471	731,390
Pledged bank deposits	–	193
Construction in progress	371,519	363,659
Right-of-use assets	76,626	79,251
	1,016,616	1,174,493

As at 30 June 2020, the Group had no significant contingent liabilities (31 December 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group had approximately 178 employees (31 December 2019: 239 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.

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 2019 Annual Report.

As at the date of this report, the total number of share options available for issue under the scheme is 270,606,779 shares. The share options granted under the Share Option Scheme lapsed on 29 September 2019 and no further share option was granted under the Share Option Scheme for the six months end 30 June 2020. None of the Directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such share options during the Period.

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 2019 Annual Report.

During the Period, no restricted shares were granted by the Company. During the Period, no equity 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 2020, 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%
		1,067,862,045 (S)		1,067,862,045 (S)	17.34%
		(note 2)			
		(note 3)			

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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

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. As of 30 June 2020, the issued shares of the company were 6,156,928,860.

Save as disclosed above, as at 30 June 2020, 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 2020, 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%
		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(有限合夥 (*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)	-	3,078,500,000 (L)	50.00%
		1,067,862,045 (S)		1,067,862,045 (S)	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)	-	3,078,000,000 (L)	49.99%
		1,067,862,045 (S)		1,067,862,045 (S)	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) (note 9)	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) (note 9)	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) (note 9)	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) (note 9)	17.34%
Central Faith International Ltd.	Beneficial owner and Interest of controlled corporation	972,981,013 (L)	-	972,981,013 (L) (note 9)	15.80%
World Treasure Global Limited (note 7)	Beneficial owner	618,981,013 (L)	-	618,981,013 (L) (note 9)	10.05%
Ye Cheng (note 8)	Interest of controlled corporation	347,471,988 (L)	-	347,471,988 (L) (note 9)	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. Based on the disclosure of interests' forms submitted by the substantial shareholders respectively as of 30 June 2020.
10. As of 30 June 2020, the issued shares of the company were 6,156,928,860.

Save as disclosed above, as at 30 June 2020, 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 emphasize effective internal controls and the Company's accountability to all shareholders.

Save as disclosed in this report, throughout the Period under review, the Company has complied with all applicable 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 provision E.1.2.

CG Code provision E.1.2 stipulates that the chairman of the Board should attend the annual general meeting. Dr. Liu Ruopeng, the Chairman of the Board, did not attend the annual general meeting held on 29 June 2020 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 (the "Model Code") 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

Change in Director's biographical details since the date of the 2019 Annual Report and up to the date of this report, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are set out below:

- Dr. Liu Jun resigned as an independent non-executive Director, a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee with effect from 27 July 2020 due to his other business commitments; and
- Dr. Deng Ke has been appointed as an independent non-executive Director, a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee with effect from 27 July 2020.

Save as disclosed above, during the Period there was no other change of Directors' information which is required to be disclosed in accordance with Rule 13.51B(1) of the Listing Rules.

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 Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and the interim results of the Group for the six months ended 30 June 2020. The Audit Committee is satisfied with the review and the Board is also satisfied with the Audit Committee's report.

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

Hong Kong, 26 August 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Notes	Six months ended 30 June	
		2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Continuing Operations			
Revenue	6	61,379	35,252
Cost of sales		(43,567)	(32,433)
Gross profit		17,812	2,819
Other income	7	1,093	5,874
Other (losses)/gains, net	8	(95)	333
Reversal of provision of allowance for expected credit loss on trade receivables		27,750	13,150
Provision for expected credit loss on contract assets		–	(2,115)
Selling and distribution expenses		(8,606)	(12,181)
Research and development expenses		(13,683)	(37,354)
Administrative expenses		(24,283)	(34,061)
Operating loss		(12)	(63,535)
Finance income		226	2,022
Finance costs		(11,000)	(13,281)
Finance costs, net		(10,774)	(11,259)
Share of results of associates		–	(12,471)
Loss before tax		(10,786)	(87,265)
Income tax expense	10	(636)	(975)
Loss from continuing operations		(11,422)	(88,240)
Loss from discontinued operation	12	(195)	(2,088)
Loss for the period		(11,617)	(90,328)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Notes	Six months ended 30 June	
		2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
(Loss)/profit for the period from continuing operations attributable to:			
Owners of the Company		(11,347)	(90,572)
Non-controlling interests		(75)	2,332
		(11,422)	(88,240)
Loss for the period from discontinued operations attributable to:			
Owners of the Company		(101)	(1,087)
Non-controlling interests		(94)	(1,001)
		(195)	(2,088)
(Loss)/profit for the period attributable to:			
Owners of the Company		(11,448)	(91,659)
Non-controlling interests		(169)	1,331
		(11,617)	(90,328)
Loss per share			
From continuing and discontinued operations			
Basic (HK cents per share)	13	(0.19)	(1.49)
Diluted (HK cents per share)	13	(0.19)	(1.49)
From continuing operations			
Basic (HK cents per share)	13	(0.18)	(1.47)
Diluted (HK cents per share)	13	(0.18)	(1.47)

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 2020

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Loss for the period	(11,617)	(90,328)
Other comprehensive loss		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(9,036)	1,670
<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	(126,972)	(37,269)
Other comprehensive loss, net of tax	(136,008)	(35,599)
Total comprehensive loss for the period	(147,625)	(125,927)
Total comprehensive loss for the period attributable to:		
Owners of the Company	(147,271)	(125,604)
Non-controlling interests	(354)	(323)
	(147,625)	(125,927)

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 2020

	Notes	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	14	385,923	380,264
Right-of-use assets	15	147,958	157,729
Intangible assets	16	2,494	5,023
Investment in associates		–	–
Financial assets at fair value through other comprehensive income	17	568,471	731,390
Long-term deposits and prepayments	18	–	1,118
Total non-current assets		1,104,846	1,275,524
CURRENT ASSETS			
Inventories		20,221	1,406
Contract assets		14,024	14,281
Trade and other receivables	18	350,819	304,953
Loan receivables	19	–	–
Pledged bank deposits		–	193
Cash and cash equivalents		113,982	245,879
Total current assets		499,046	566,712
Total assets		1,603,892	1,842,236

**CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION**
AT 30 JUNE 2020

	Notes	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
EQUITY			
Share capital	20	61,569	61,569
Other reserves	21	1,285,386	1,421,209
Accumulated losses		(447,465)	(458,702)
Equity attributable to owners of the Company		899,490	1,024,076
Non-controlling interests		1,257	24,296
Total equity		900,747	1,048,372
LIABILITIES			
NON-CURRENT LIABILITIES			
Bank and other borrowings	22	156,356	157,980
Lease liabilities	15	57	554
Deferred income tax liabilities		35,942	59,421
Total non-current liabilities		192,355	217,955
CURRENT LIABILITIES			
Trade and other payables	23	113,997	182,166
Contract liabilities		6,462	7,872
Lease liabilities	15	1,105	1,212
Deferred government grants		36,595	26,004
Income tax payable		12,809	12,230
Bank and other borrowings	22	339,822	346,425
Total current liabilities		510,790	575,909
Total liabilities		703,145	793,864
Total equity and liabilities		1,603,892	1,842,236

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 2020

	Share capital HK\$'000 (Note 20)	Other reserves HK\$'000 (Note 21)	Accumulated losses HK\$'000	Subtotal HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2020	61,569	1,421,209	(458,702)	1,024,076	24,296	1,048,372
Loss for the period	-	-	(11,448)	(11,448)	(169)	(11,617)
Other comprehensive loss for the period:						
– Currency translation differences	-	(8,851)	-	(8,851)	(185)	(9,036)
– Changes in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	-	(126,972)	-	(126,972)	-	(126,972)
Total comprehensive loss for the period	-	(135,823)	(11,448)	(147,271)	(354)	(147,625)
Disposal of a non-wholly owned subsidiary	-	-	22,685	22,685	(22,685)	-
At 30 June 2020 (unaudited)	61,569	1,285,386	(447,465)	899,490	1,257	900,747

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Share capital HK\$'000 (Note 20)	Other reserves HK\$'000 (Note 21)	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

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 2020

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
CASH FLOW FROM OPERATING ACTIVITIES		
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(116,003)	58,439
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(15,600)	(26,365)
Interest received	226	2,022
Net proceeds from time deposits	193	114
Receipt of loan receivables	–	9,731
NET CASH USED IN INVESTING ACTIVITIES	(15,181)	(14,498)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from bank borrowings	2,773	27,901
Repayments of lease liabilities	(675)	(1,471)
NET CASH GENERATED FROM FINANCING ACTIVITIES	2,098	26,430
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(129,086)	70,371
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	245,879	429,611
Effect of foreign exchange rate changes	(2,811)	(1,806)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	113,982	498,176

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”) is a limited company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of its business is located at Unit 1220, 12/F, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together the “Group”) are in the research and development, and manufacturing of innovative products for future technology business, and provision of other innovative technology service solution.

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 2020. 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 2020 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 (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 2019, 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 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

(a) New and amended standards adopted by the Group

In the Period, the Group has applied the following new standards and amendments to HKFRSs for the first time for their reporting period commencing 1 January 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of material

The adoption of these amendments to standards did not result in a significant impact to the Group’s financial position and results.

(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 2020 and have not been early adopted:

HKFRS 17	Insurance contracts ⁽¹⁾
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate and joint venture ⁽²⁾

⁽¹⁾ Effective for the Group for annual period beginning on 1 January 2023.

⁽²⁾ Effective date to be determined.

Management is assessing the impact of the above amendments to standards and interpretations, which have been issued but are not yet effective for 2020, on the operations of the Group, and is yet to be in the position to conclude the impact.

There are no other HKFRSs or HK (IFRIC) interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

4 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 2019.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 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 2019.

5.2 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.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 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 2020 and 31 December 2019 on a recurring basis:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 30 June 2020				
Financial assets				
Financial assets at fair value through other comprehensive income				
– Listed equity security	568,471	–	–	568,471
– Unlisted equity securities	–	–	–	–
At 31 December 2019				
Financial assets				
Financial assets at fair value through other comprehensive income				
– Listed equity security	731,390	–	–	731,390
– Unlisted equity securities	–	–	–	–

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.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 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.

(b) 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.

6 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:

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
From continuing operations		
Revenue from contracts with customers		
within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– Sale of chips	–	7,311
– Sale of super intelligent tracking system	14,950	27,090
– Sale of wearable smart helmets	46,429	851
	61,379	35,252

6 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
	2020	2019	2020	2019
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (audited)
PRC	41,444	27,941	535,955	543,425
Hong Kong	–	7,311	420	709
Other overseas countries	19,935	–	–	–
	61,379	35,252	536,375	544,134

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

7 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
From continuing operations		
Government grants	1,048	4,158
Sundry income	45	1,716
	1,093	5,874

8 OTHER (LOSSES)/GAINS, NET

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
From continuing operations		
Exchange (losses)/gains, net	(53)	333
Loss on disposal of a subsidiary	(42)	–
	(95)	333

9 OPERATING LOSS

Operating loss has been arrived at after charging or (crediting):

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
From continuing operations		
Cost of inventories sold	43,567	32,433
Salaries, wages and other benefits	16,362	49,466
Amortisation of intangible assets	2,440	2,565
Depreciation of property, plant and equipment	2,071	2,666
Amortisation of right-of-use assets	6,798	5,858
Directors' emoluments	664	2,269
Operating lease expenses for office premises and warehouses relating to short-term leases	4,623	6,351
Reversal of provision of allowance for expected credit loss on trade receivables	(27,750)	(13,150)
Provision of allowance for expected credit loss on contract assets	–	2,115

10 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
From continuing operations		
Current income tax expenses		
Hong Kong profits tax	579	973
PRC Corporate Income Tax	57	2
	636	975

Notes:

- (i) During the six months ended 30 June 2020 and 2019, 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% (2019: 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 2019 to 2022 (2019: 15%).

11 DIVIDEND

No dividend was paid, declared or proposed by the Company during the six months ended 30 June 2020.

12 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. During the six months ended 30 June 2020, the Company fully disposed its investment in MACL.

13 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	
	2020	2019
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	(11,448)	(91,659)
Add: loss for the period from discontinued operations	101	1,087
Loss for the purpose of basic and diluted loss per share from continuing operations	(11,347)	(90,572)

	Unaudited	
	Six months ended 30 June	
Number of shares	2020	2019
	'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

13 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	
	2020	2019
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	(11,448)	(91,659)

For the six months ended 30 June 2020 and 2019, 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.

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	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
COST								
At 1 January 2019	-	22,789	216	19,998	8,125	6,128	287,221	344,477
Additions	-	35	-	4,468	-	-	82,912	87,415
Additions through acquisition of subsidiaries	8,014	-	-	-	-	-	-	8,014
Disposal	-	(1,107)	-	(363)	(7,996)	(364)	-	(9,830)
Currency translation differences	-	(212)	(3)	(294)	(41)	(92)	(6,474)	(7,116)
At 31 December 2019 and 1 January 2020	8,014	21,505	213	23,809	88	5,672	363,659	422,960
Additions	-	-	-	177	-	-	15,423	15,600
Disposals	-	(12,960)	-	(8,230)	(88)	(491)	-	(21,769)
Currency translation differences	(153)	(163)	(3)	(294)	-	(85)	(7,563)	(8,261)
At 30 June 2020	7,861	8,382	210	15,462	-	5,096	371,519	408,530
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2019	-	16,929	192	13,891	4,273	4,220	-	39,505
Depreciation	-	2,158	21	3,311	3,834	909	-	10,233
Disposals	-	(1,107)	-	(336)	(7,996)	(364)	-	(9,803)
Provision for impairment	-	2,370	3	827	-	-	-	3,200
Currency translation differences	-	(166)	(3)	(177)	(23)	(70)	-	(439)
At 31 December 2019 and 1 January 2020	-	20,184	213	17,516	88	4,695	-	42,696
Depreciation	197	366	-	1,222	-	286	-	2,071
Disposals	-	(12,960)	-	(8,230)	(88)	(492)	-	(21,770)
Currency translation differences	(1)	(139)	(3)	(177)	-	(70)	-	(390)
At 30 June 2020	196	7,451	210	10,331	-	4,419	-	22,607
CARRYING AMOUNTS								
At 30 June 2020	7,665	931	-	5,131	-	677	371,519	385,923
At 31 December 2019	8,014	1,321	-	6,293	-	977	363,659	380,264

15 LEASES

(a) Right-of-use assets

	Leased properties HK\$'000	Leasehold lands HK\$'000	Total HK\$'000
Balance as at 1 January 2020	12,525	145,204	157,729
Amortisation charge	(4,090)	(2,708)	(6,798)
Exchange translation	(214)	(2,759)	(2,973)
Balance as at 30 June 2020 (unaudited)	8,221	139,737	147,958

(b) Lease liabilities

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Non-current	57	554
Current	1,105	1,212
	1,162	1,766

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

	Unaudited Six months ended 30 June 2020 HK\$'000	2019 HK\$'000
Amortisation charge of right-of-use assets	6,798	5,858
Interest on lease liabilities	71	1,198
Expense relating to short-term leases (note 9)	4,623	6,351
	11,492	13,407

16 INTANGIBLE ASSETS AND GOODWILL

	Goodwill HK\$'000	Capitalised development cost HK\$'000	Software HK\$'000	Technical knowhow and patents HK\$'000	Total HK\$'000
COST					
At 1 January 2019	30,723	104,358	5,690	85,182	225,953
Currency translation differences	(71)	(1,490)	(82)	(448)	(2,091)
At 31 December 2019 and 1 January 2020	30,652	102,868	5,608	84,734	223,862
Disposal of a subsidiary	(30,652)	(95,261)	(5,193)	(64,460)	(195,566)
Currency translation differences	-	(7,607)	(415)	(5,436)	(13,458)
At 30 June 2020	-	-	-	14,838	14,838
ACCUMULATED AMORTISATION AND IMPAIRMENT					
At 1 January 2019	30,723	104,358	5,690	74,998	215,769
Amortisation	-	-	-	5,043	5,043
Currency translation differences	(71)	(1,490)	(82)	(330)	(1,973)
At 31 December 2019 and 1 January 2020	30,652	102,868	5,608	79,711	218,839
Amortisation	-	-	-	2,440	2,440
Disposal of a subsidiary	(30,652)	(95,261)	(5,193)	(64,460)	(195,566)
Currency translation differences	-	(7,607)	(415)	(5,347)	(13,369)
At 30 June 2020	-	-	-	12,344	12,344
CARRYING AMOUNTS					
At 30 June 2020	-	-	-	2,494	2,494
At 31 December 2019	-	-	-	5,023	5,023

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Listed security:		
– Equity security (note)	568,471	731,390
Unlisted securities:		
– Equity securities	–	–
	568,471	731,390

Note: As at 30 June 2020, the Group hold 71,528,751 (31 December 2019: 71,528,751) ordinary shares of Kuang-Chi Technologies Co., Ltd. (“KCT”), representing 3.32% (31 December 2019: 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. During the year ended 31 December 2018, a capital restructuring was done, pursuant to which additional 7 ordinary shares were allotted for every 10 ordinary shares held. 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.

18 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Trade receivables	92,903	330,492
Less: allowance for expected credit loss	(28,989)	(57,600)
Trade receivables, net	63,914	272,892
Deposits and other receivables (note)	254,240	3,326
Prepayment to suppliers	18,203	13,477
Prepaid rentals	2,690	4,603
Value-added tax and other tax recoverable	11,772	11,773
	350,819	306,071
Less: non-current portion	–	(1,118)
	350,819	304,953

Note:

Included in deposits and other receivables of HK\$252,692,000 was related to the trading business of the Group. The Group provides electronic chip procurement services to the customers.

The following is an ageing analysis of trade receivables presented based on date of revenue recognition and net of allowance as at 30 June 2020 and 31 December 2019:

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
0 to 90 days	3,799	171,730
91 to 180 days	–	77
181 to 365 days	23,847	35,549
1 to 2 years	3,554	13,625
2 to 3 years	12,145	43,135
Over 3 years	20,568	8,776
	63,914	272,892

18 TRADE AND OTHER RECEIVABLES (Continued)

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

	Trade receivables	Contract assets	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019	25,788	626	26,414
Provision for/(reversal of) impairment loss	32,595	(329)	32,266
Currency translation differences	(783)	(7)	(790)
At 31 December 2019 and 1 January 2020	57,600	290	57,890
Reversal of impairment loss (note)	(27,750)	–	(27,750)
Currency translation differences	(861)	(1)	(862)
At 30 June 2020	28,989	289	29,278

Note:

During the six months ended 30 June 2020, the Group successfully recovered total trade receivables of approximately RMB48,000,000 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\$27,750,000.

19 LOAN RECEIVABLES

	Notes	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Loans to third parties	(a)	2,368	2,368
Loan to an associate	(b)	22,378	22,378
		24,746	24,746
Less: provision for impairment of loan receivables	(a), (b)	(24,746)	(24,746)
		–	–

Notes:

- (a) As at 30 June 2020 and 31 December 2019, 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 2020 and 31 December 2019, 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.

20 SHARE CAPITAL

Ordinary shares	Number of shares	Equivalent to HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020	7,316,666,668	73,167
Issued and fully paid:		
At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020	6,156,928,860	61,569

21 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 2020	2,339,550	(970,933)	17,900	103,941	-	(69,249)	1,421,209
Currency translation differences	-	-	-	-	-	(8,851)	(8,851)
Fair value changes of financial assets at fair value through other comprehensive income, net of deferred tax	-	(126,972)	-	-	-	-	(126,972)
Other comprehensive loss for the period	-	(126,972)	-	-	-	(8,851)	(135,823)
At 30 June 2020 (unaudited)	2,339,550	(1,097,905)	17,900	103,941	-	(78,100)	1,285,386

21 OTHER RESERVES (Continued)

	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	-	-	-	-	-	(13,958)	(13,958)
Fair value changes of financial assets at fair value through other comprehensive income, net deferred tax	-	(75,335)	-	-	-	-	(75,335)
Other comprehensive loss for the year	-	(75,335)	-	-	-	(13,958)	(89,293)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	-	7,086	-	-	-	-	7,086
Transfer of share-based payment reserve upon the expiry of share options	-	-	-	-	(46,545)	-	(46,545)
At 31 December 2019	2,339,550	(970,933)	17,900	103,941	-	(69,249)	1,421,209

Notes:

- The balance of capital reserve represents the capital reserve arising from the Group's restructuring which took place in 1992.
- 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.
- The balance of share-based payment reserve represents share options granted on 30 September 2015.

22 BANK AND OTHER BORROWINGS

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Bank borrowings		
– Within 1 year	10,962	11,175
– Between 1 and 2 years	10,962	11,175
– Between 2 and 5 years	65,772	67,050
– Over 5 years	79,622	79,755
	167,318	169,155
Other borrowings		
– Within 1 year	328,860	335,250
	328,860	335,250
Total bank and other borrowings	496,178	504,405

As at 30 June 2020, the bank borrowings carried interest of approximately 6.7% to 7.4% p.a. (31 December 2019: 6.7% to 7.4% p.a.) which were secured by the right-of-use assets and the construction-in-progress, amounting to HK\$76,626,000 (31 December 2019: HK\$79,251,000) and HK\$371,519,000 (31 December 2019: HK\$363,659,000) respectively, and were guaranteed by the Company and a company which is controlled by Dr. Liu Ruopeng.

As at 30 June 2020, the other borrowings carried interest at fixed interest rate of 6.5% p.a. (31 December 2019: 6.5% p.a.) which were 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\$568,471,000 (31 December 2019: HK\$731,390,000) and were guaranteed by the Company's shareholders and a company which is controlled by Dr. Liu Ruopeng.

As at 30 June 2020, the total available banking facilities granted to the Group were approximately HK\$548,100,000 (31 December 2019: HK\$316,186,000), of which HK\$375,301,000 (31 December 2019: HK\$147,031,000) were not utilised.

23 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Trade payables	34,108	22,127
Accrued employee benefits	4,670	12,240
Value-added tax and other tax payable	8,481	6,693
Other payables and accruals	15,451	34,131
Consideration payable for acquisition of subsidiaries	–	49,070
Accrued construction costs	51,287	57,905
	113,997	182,166

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 2020 HK\$'000	Audited 31 December 2019 HK\$'000
0 – 90 days	20,628	6,869
Over 90 days	13,480	15,258
	34,108	22,127

24 CAPITAL COMMITMENTS

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

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Significant capital expenditure contracted for at the end of the reporting period but not recognized as liabilities		
Property, plant and equipment	33,806	35,464

25 RELATED PARTY TRANSACTIONS

(a) Related party balances

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Trade payables – 深圳超材料技術有限公司 (「深圳超材料」)	19,898	(83)

(b) Related party transactions

Name of parties	Nature of transactions	Unaudited Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
深圳超材料	Purchase of Wearable Smart Helmets and other materials	54,796	6,538

Note:

The director and controlling shareholder of the Company, Dr. Liu Ruopeng, is a controlling shareholder of 深圳超材料. The above transactions were 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 2020 and 2019.

26 SUBSEQUENT EVENT

There were no material events occurred after the period ended 30 June 2020.