

# KUANGCHI SCIENCE LIMITED

Incorporated in Bermuda with limited liability

Stock Code: 439

## 2021 Interim Report



## CONTENTS

Corporate Information	2
Management Discussion and Analysis	4
Directors' and Chief Executives' Interests in Shares	10
Substantial Shareholders' Interests in Shares	12
Corporate Governance and Other Information	14
Condensed Consolidated Statement of Profit or Loss	16
Condensed Consolidated Statement of Comprehensive Income	18
Condensed Consolidated Statement of Financial Position	19
Condensed Consolidated Statement of Changes in Equity	21
Condensed Consolidated Statement of Cash Flows	23
Notes to the Interim Condensed Consolidated Financial Information	24



## 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

#### Non-executive Director

Mr. Li Chiu Ho

#### Independent Non-executive Directors

Dr. Wong Kai Kit  
Mr. Choi Wing Koon  
Dr. Deng Ke

### 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 1104, 11/F., Leighton Centre  
77 Leighton Road, Causeway Bay  
Hong Kong

### HEAD OFFICE IN SHENZHEN

301-B077, Building 2  
No. 1, Mawu Road  
Baoan Community, Yuanshan Street  
Longgang District, Shenzhen PRC  
Postal code: 518115

Email: [kcs@kuang-chi.com](mailto:kcs@kuang-chi.com)  
Website: [www.kuangchiscience.com](http://www.kuangchiscience.com)

Tel: (86) 0755 8664 9703  
Fax: (86) 0755 8664 9700

## 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

The Company and its subsidiaries (collectively, the “Group”) are mainly engaged in the development of AI technology and related innovative products and provision of AI technology services and related solutions in various vertical fields (“AI Business”). For the six months ended 30 June 2021 (the “Period”), the Group recorded a total revenue of approximately HK\$14.8 million, a net loss of HK\$14.3 million and the gross profit margin was 46.8%.

As of 30 June 2021, the Group’s current assets exceeded its current liabilities by HK\$176 million and had net debt of HK\$78 million (31 December 2020: current liabilities exceeded current assets by HK\$133 million, net debt HK\$348 million). The Group has significantly improved its financial position during the Period mainly through the disposal of certain of its financial assets at fair value through other comprehensive income for a total consideration of RMB386 million (equivalent to HK\$460 million). The disposal proceeds were used for repayment of other borrowings and working capital purpose.

The revenue of the Group decreased by HK\$46.6 million or 75.9% to HK\$14.8 million for the Period from HK\$61.4 million for the Comparative Period. The decrease was mainly due to the decrease in sale of wearable smart helmets. Although the Company has noticed that there has been a decrease in the demand for the anti-COVID smart helmet compared to the Comparative Period due to the vaccination campaign in different countries. Considering the outbreak has not been fully contained in many countries and the virus variant has been causing another wave of inflections and it becomes the new norm to adopt body temperature screening as pandemic control measures, the Company believes that there remains a demand for anti-COVID smart helmet globally.

The Company continues to conduct further research and development aiming to producing products incorporated with the AI-technology and big data analysis for different solutions in various vertical industries. The Company believes that with the development of 5G network and the cloud computing technologies, the growth application of data analysis services, as well as the resumption of public security projects in second half of 2021, the Company’s AI business will gradually resume and improve.

### EXPANDING APPLICATIONS IN VARIOUS INDUSTRIES

The Group has long been committed to the research and development of algorithms related to AI technology, big data analysis platform and professional application products and systems for vertical industries based on such algorithms and platform, and the provision of professional system integration, installation, debugging, operation and maintenance services. It has developed integrated solutions centering on AI algorithm technology to enable access to a variety of fixed and mobile front-end devices and empower them with AI. Currently, the Group’s AI-related products and integrated solutions are increasingly applied in the fields of public security and epidemic prevention, while further penetrating into the fields of education, industrial testing and Internet commerce.

## MANAGEMENT DISCUSSION AND ANALYSIS

By understanding the needs of and problems facing potential customers in different industries, the Group customises the development of core algorithm software and big data analysis platform based on the needs and pain points of customers, and ultimately provides products or comprehensive solutions that meet the relevant industry requirements and can fit into the business processes of customers. By doing so, the Group has designed and developed a series of underlying core AI algorithms. During the Period, the Group continued to carry out customised research and development to improve performance, refine functions and expand applications based on the needs of vertical industries such as public security, epidemic prevention, industrial testing, Internet commerce and education.

In the field of public security, the Group has developed multi-dimensional, multi-domain AI algorithm software such as mobile terminal identification and tracking algorithm and behaviour feature analysis algorithm and a big data management and analysis platform. Such algorithms and platform can selectively empower mobile or fixed terminals in different scenarios and form integrated solutions such as an artificial intelligent system based on the customised system management platform. For example, the Group continued to deliver, deploy, install and debug such solutions in densely populated areas such as Chongqing North Railway Station, which significantly improved the work efficiency of relevant personnel.

In the field of public health and epidemic prevention, COVID-19 is somewhat under control in the world, but the normalisation of COVID-19 prevention and control still creates a demand for smart anti-COVID helmets that can quickly screen out feverish individuals in a contactless manner. During the Period, the Group deeply innovated its algorithms for temperature measurement based on infrared and visible light fusion based on its years of AI technology expertise and the feedback from customers. Given the excellent performance of the smart anti-COVID helmet enabling rapid temperature measurement in places that have a large footfall and are widely distributed and prone to crowd gathering, customers in China and Southeast Asia continued to purchase the product as an anti-COVID tool.

In the field of data analysis services, the video capture and analysis and Internet behaviour analysis algorithms developed by the Group have been applied to precision marketing of Internet commerce companies and others to improve service efficiency. The smart campus management system designed and developed by the Group can be applied to campus safety management and analysis of child's behaviour during the grow-up process.

In respect of industrial testing, the intelligent industrial testing system and data analysis services provided by the Group have the technical characteristics of high robustness, strong adaptability and high efficiency, and are being applied in the fields of production process control and intelligent equipment testing.

During the Period, the Group has carried out developments of various industries in Shanghai, Chongqing, Shenzhen and other places. For example, in the field of Internet commerce, the development of application in Internet commerce based on big data analysis; research and development and systematic testing and deployment are being carried out in the field of industrial and testing application. At the same time, the campus intelligent management system platform is under continuous construction and implementation, in order to continue to deepen and expand the application of the Group's products in the education field.

## MANAGEMENT DISCUSSION AND ANALYSIS

As the Group's smart products penetrate into vertical industries such as public security, industrial testing and data analysis, the Group is also accelerating the research and development of other smart products. The Group's management believes that with the development of 5G network, Internet of Things and cloud computing technologies, the Company's AI technology will be gradually applied to more vertical industries based on its development objectives and the industrial needs, and be used to develop more application products according to the pain points and needs of users. There will be extensive application needs and great market prospects for AI technology in related fields.

### MANPOWER DEVELOPMENT

With regard to staff development, the Company improved the talent training system and innovated in the personnel development system to enhance staff quality. The Group will uphold the key strategy of attracting and nurturing high-calibre employees, and introduce high-tech talents in AI, electronic information and other related fields from around the world. As at 30 June 2021, the Group had 98 employees, of whom approximately 19% have a master's degree or above. They lay a solid foundation for the further development of the Group.

### INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the Period (2020: Nil).

### CAPITAL STRUCTURE

As at 30 June 2021, the Company had 6,156,928,860 ordinary shares of HK\$0.01 each in issue.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group's total shareholders' funds amounted to approximately HK\$1,884,055,000 (31 December 2020: HK\$1,938,285,000). Total assets were approximately HK\$2,451,010,000 (31 December 2020: HK\$2,843,044,000) and total liabilities were approximately HK\$566,955,000 (31 December 2020: HK\$904,759,000).

As at 30 June 2021, the Group had cash and cash equivalents of approximately HK\$101,542,000 (31 December 2020: HK\$147,812,000) and pledged bank deposits of approximately HK\$1,648,000 (31 December 2020: HK\$2,388,000). The gearing ratio as of 30 June 2021, defined as the percentage of the total interest bearing debt, including lease liabilities and bank and other borrowings of approximately HK\$532,000 (31 December 2020: HK\$1,130,000) and HK\$180,887,000 (31 December 2020: HK\$496,839,000), respectively to net asset value, was approximately 9.6% (31 December 2020: 25.70%).

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 2021 are set out in note 22 to the consolidated financial information.

## MANAGEMENT DISCUSSION AND ANALYSIS

### PLEDGE OF ASSETS

As at 30 June 2021, the right-of-use assets amounted to HK\$81,751,000 (31 December 2020: HK\$82,174,000) and construction-in-progress amounted to HK\$413,362,000 (31 December 2020: HK\$401,385,000) were pledged for the Group's bank borrowings. The bank deposits amounted to HK\$1,648,000 as at 30 June 2021 (31 December 2020: HK\$2,388,000) were pledged for the construction work and service contracts.

### CONTINGENT LIABILITIES

As at 30 June 2021, the Group had no significant contingent liabilities (31 December 2020: 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.

### 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 disposed of a total of 15,245,891 KCT shares ("KCT Disposal") on the open market through a series of transactions during the period from 20 January 2021 to 8 February 2021, at the aggregate consideration of approximately RMB385,718,000. The average selling price of disposal of KCT shares was approximately RMB25.30. After the KCT Disposal, the sale proceeds were approximately RMB385,718,000 (HK\$459,737,000), the Group recognized a gain on disposal of approximately RMB40,014,000 (HK\$48,061,000) for the KCT Disposal in other comprehensive income for the Period. As at 30 June 2021, the Group held 56,282,860 ordinary shares of KCT, which represented approximately 2.61% of the KCT issued shares. The carrying amount of KCT as at 30 June 2021 is HK\$1,409,009,000 (31 December 2020: HK\$1,492,600,000, after KCT Disposal), which represented 57.5% (31 December 2020: 66.7%, after KCT Disposal) of the total assets of the Group. A fair value loss of HK\$82,744,000 for the six months ended 30 June 2021 (30 June 2020: a fair value loss of HK\$126,972,000) was recognised in other comprehensive loss. No dividend from KCT for the six months ended 30 June 2021 (31 December 2020: Nil) was received by the Group.



## MANAGEMENT DISCUSSION AND ANALYSIS

Please refer to 2020 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 2021, certain assets of the Group were pledged to secure banking facilities granted to the Group as follows:

	Unaudited 30 June 2021 HK\$'000	Audited 31 December 2020 HK\$'000
Financial assets at fair value through other comprehensive income – Shares in KCT	–	1,896,926
Pledged bank deposits	1,648	2,388
Construction in progress	413,362	401,385
Right-of-use assets	81,751	82,174
	<b>496,761</b>	<b>2,382,873</b>

As at 30 June 2021, the Group had no significant contingent liabilities (31 December 2020: Nil).

## FUTURE PLANS FOR MATERIAL INVESTMENTS

Save as disclosed in this report, there was no plan for any material investments or additions of capital assets as at the date of this report.

## EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group had approximately 98 employees (31 December 2020: 110 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. Moreover, the Group provides employees with relevant training courses based on their personal career development.

## MANAGEMENT DISCUSSION AND ANALYSIS

### SHARE OPTION SCHEMES

#### 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 note 24 to the condensed consolidated financial statements.

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	Granted during the Period	Exercised during the Period	Outstanding
				as at 1 January 2021			as at 30 June 2021
Employees	22.4.2021	0.229	22.4.2021-21.4.2026 <sup>(2)</sup>	-	27,000,000	-	27,000,000

- 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.

As at the date of this report, the total number of share options available for issue under the scheme is 243,606,779 shares.

The aggregate fair value of the share options granted during the Period amounted to approximately HK\$2,808,000. Details about the fair value of the Share Option Scheme were disclosed in note 24 to the condensed consolidated financial statements.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2021, 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		Approximate percentage of total issued Shares
	Personal interest	Corporate interests	
Dr. Liu Ruopeng ("Dr. Liu")	–	2,618,500,000 (L) (note 2)	42.53%

Notes:

- "L" represents long position in shares/underlying shares and "S" represents short position in Shares.
- This represents the interests in 2,618,500,000 shares of the Company directly held by two companies: – (1.) 2,618,000,000 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.
- As of 30 June 2021, the issued shares of the Company were 6,156,928,860.

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES**

Save as disclosed above, as at 30 June 2021, 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 2021, 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	Approximate percentage of total issued Shares
Ms. Huang Weizi	Interest of spouse	2,618,500,000 (L) (note 2)	42.53%
New Horizon	Beneficial owner	2,618,000,000 (L)	42.52%
Wireless Connection Innovative Technology Limited	Interest of controlled corporation	2,618,000,000 (L)	42.52%
深圳大鵬光啟科技有限公司 (*Shenzhen Dapeng Kuang-Chi Technology Limited)	Interest of controlled corporation	2,618,000,000 (L)	42.52%
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	2,618,000,000 (L)	42.52%
深圳光啟合眾科技有限公司 (*Shenzhen Kuang-Chi Hezhong Technology Limited)	Interest of controlled corporation	2,618,500,000 (L)	42.53%
深圳光啟創新技術有限公司 (*Shenzhen Kuang-Chi Innovative Technology Limited)	Interest of controlled corporation	2,618,000,000 (L)	42.52%
Central Faith International Ltd.	Beneficial owner and Interest of controlled corporation	972,981,013 (L)	15.80%

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

Name of Substantial Shareholder	Capacity	Number of Shares held	Approximate percentage of total issued Shares
World Treasure Global Limited (note 3)	Beneficial owner	618,981,013 (L)	10.05%
Ye Cheng (note 4)	Interest of controlled corporation	347,471,988 (L)	5.64%

\* *For identification purpose only*

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. World Treasure Global Limited is a wholly owned subsidiary of Central Faith International Ltd.
4. 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.
5. Based on the disclosure of interests' forms submitted by the substantial shareholders respectively as of 30 June 2021.
6. As of 30 June 2021, the issued shares of the Company were 6,156,928,860.

Save as disclosed above, as at 30 June 2021, 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 provisions A.6.7 and E.1.2**

Code provisions A.6.7 and E.1.2 of the CG Code stipulate that independent non-executive directors, non-executive directors and the chairman of the board of directors should attend annual general meetings. The Chairman of the Board of Directors, Dr. Liu Ruopeng, and independent non-executive Director, Dr. Wong Kai Kit did not attend the annual general meeting held on 28 June 2021, due to other business commitments. In this respect, Dr. Luan Lin, an executive Director, Chief Executive Officer and Chief Technical Officer of the Company, took the chair of that meeting to answer questions.

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

There is no change in Director's biographical details since the date of the Annual Report 2020 and up to the date of this report, which are required to be disclosed pursuant to 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 2021. 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, 30 August 2021



## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Notes	Six months ended 30 June	
		2021 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)
<b>Continuing Operations</b>			
Revenue	6	14,812	61,379
Cost of sales		(7,878)	(43,567)
<b>Gross profit</b>		<b>6,934</b>	<b>17,812</b>
Other income	7	1,600	1,093
Other gains/(losses), net	8	2,674	(95)
Reversal of impairment on other receivables		14	–
Reversal of impairment loss on trade receivables		3,376	27,750
Impairment loss on contract assets		(4)	–
Selling and distribution expenses		(9,074)	(8,606)
Research and development expenses		(7,913)	(13,683)
Administrative expenses		(13,368)	(24,283)
<b>Operating loss</b>		<b>(15,761)</b>	<b>(12)</b>
Finance income		1,625	226
Finance costs		(143)	(11,000)
Finance costs, net		1,482	(10,774)
Loss before tax		(14,279)	(10,786)
Income tax expense	10	–	(636)
<b>Loss from continuing operations</b>		<b>(14,279)</b>	<b>(11,422)</b>
Loss from discontinued operation	12	–	(195)
<b>Loss for the period</b>		<b>(14,279)</b>	<b>(11,617)</b>

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Notes	Six months ended 30 June	
		2021 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)
Loss for the period from continuing operations attributable to:			
Owners of the Company		(14,279)	(11,347)
Non-controlling interests		–	(75)
		<b>(14,279)</b>	<b>(11,422)</b>
Loss for the period from discontinued operations attributable to:			
Owners of the Company		–	(101)
Non-controlling interests		–	(94)
		–	<b>(195)</b>
Loss for the period attributable to:			
Owners of the Company		<b>(14,279)</b>	(11,448)
Non-controlling interests		–	(169)
		<b>(14,279)</b>	<b>(11,617)</b>
<b>Loss per share</b>			
<b>From continuing and discontinued operations</b>			
Basic (HK cents per share)	13	<b>(0.23)</b>	(0.19)
Diluted (HK cents per share)	13	<b>(0.23)</b>	(0.19)
<b>From continuing operations</b>			
Basic (HK cents per share)	13	<b>(0.23)</b>	(0.18)
Diluted (HK cents per share)	13	<b>(0.23)</b>	(0.18)

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 2021

	Six months ended 30 June	
	2021 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)
<b>Loss for the period</b>	<b>(14,279)</b>	(11,617)
<b>Other comprehensive loss</b>		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(5,577)	(9,036)
<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	(82,744)	(126,972)
Gains on disposal of financial assets at fair value through other comprehensive income	48,061	–
Other comprehensive loss, net of tax	(40,260)	(136,008)
<b>Total comprehensive loss for the period</b>	<b>(54,539)</b>	(147,625)
Total comprehensive loss for the period attributable to:		
Owners of the Company	(54,539)	(147,271)
Non-controlling interests	–	(354)
	<b>(54,539)</b>	(147,625)

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 2021

	Notes	30 June 2021 HK\$'000 (unaudited)	31 December 2020 HK\$'000 (audited)
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	430,569	415,115
Right-of-use assets	15	204,346	157,913
Intangible assets	16	498	68
Financial assets at fair value through other comprehensive income	17	1,409,009	1,896,926
Long-term deposits and prepayments	18	1,203	1,192
<b>Total non-current assets</b>		<b>2,045,625</b>	<b>2,471,214</b>
<b>CURRENT ASSETS</b>			
Inventories		20,477	15,172
Contract assets		12,153	11,884
Trade and other receivables	18	269,565	194,574
Loan receivables	19	–	–
Pledged bank deposits		1,648	2,388
Cash and cash equivalents		101,542	147,812
<b>Total current assets</b>		<b>405,385</b>	<b>371,830</b>
<b>Total assets</b>		<b>2,451,010</b>	<b>2,843,044</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2021

	Notes	30 June 2021 HK\$'000 (unaudited)	31 December 2020 HK\$'000 (audited)
<b>EQUITY</b>			
Share capital	20	61,569	61,569
Other reserves	21	2,317,292	2,413,768
Accumulated losses		(494,804)	(537,050)
Equity attributable to owners of the Company		1,884,057	1,938,287
Non-controlling interests		(2)	(2)
<b>Total equity</b>		<b>1,884,055</b>	<b>1,938,285</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings	22	168,857	169,066
Lease liabilities	15	289	378
Deferred income tax liabilities		168,754	230,903
Total non-current liabilities		337,900	400,347
<b>CURRENT LIABILITIES</b>			
Trade and other payables	23	176,636	136,699
Contract liabilities		5,137	4,501
Lease liabilities	15	243	752
Deferred government grants		21,843	21,642
Income tax payable		13,166	13,045
Bank and other borrowings	22	12,030	327,773
Total current liabilities		229,055	504,412
<b>Total liabilities</b>		<b>566,955</b>	<b>904,759</b>
<b>Total equity and liabilities</b>		<b>2,451,010</b>	<b>2,843,044</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 2021

	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 2021	61,569	2,413,768	(537,050)	1,938,287	(2)	1,938,285
Loss for the period	–	–	(14,279)	(14,279)	–	(14,279)
Other comprehensive loss for the period:						
– Currency translation differences	–	(5,577)	–	(5,577)	–	(5,577)
– Changes in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	–	(82,744)	–	(82,744)	–	(82,744)
– Gain on disposal of financial assets at fair value through other comprehensive income	–	48,061	–	48,061	–	48,061
Total comprehensive loss for the period	–	(40,260)	(14,279)	(54,539)	–	(54,539)
– Transfer upon disposal of financial assets at fair value through other comprehensive income	–	(56,525)	56,525	–	–	–
– Recognition of share-based payments	–	309	–	309	–	309
At 30 June 2021	61,569	2,317,292	(494,804)	1,884,057	(2)	1,884,055

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	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

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 2021

	Six months ended 30 June	
	2021 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
NET CASH USED IN OPERATING ACTIVITIES	(128,513)	(116,003)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of plant and equipment	(13,379)	(15,600)
Interest received	1,625	226
Net proceeds from time deposits	740	193
Purchase of right-of-use assets	(50,798)	–
Purchase of intangible assets	(471)	–
Proceeds from disposal of financial assets at fair value through other comprehensive income	463,867	–
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	401,584	(15,181)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from bank borrowings	–	2,773
Repayment of other borrowing	(318,292)	–
Repayments of lease liabilities	(590)	(675)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	(318,882)	2,098
NET DECREASE IN CASH AND CASH EQUIVALENTS	(45,811)	(129,086)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	147,812	245,879
Effect of foreign exchange rate changes	(459)	(2,811)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	101,452	113,982

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**

FOR THE SIX MONTHS ENDED 30 JUNE 2021

### **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 1104, 11/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 30 August 2021. 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 2021 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 2020, 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 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

#### (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 2021:

Amendments to HKFRS 16	COVID-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The adoption of these amendments to standards did not result in a significant impact on 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 2021 and have not been early adopted:

HKFRS 17	Insurance contracts <sup>(2)</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current <sup>(2)</sup>
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before intended use <sup>(1)</sup>
Amendments to HKFRS 3	References to the Conceptual Framework <sup>(1)</sup>
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract <sup>(1)</sup>
Amendments to HKFRS 9, HKFRS 16, HKAS 41 and HKFRS 1	Annual Improvements to HKFRS Standards 2018-2020 <sup>(1)</sup>
Amendments to HKFRS 10 and HKAS 28	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 2022.

<sup>(2)</sup> Effective for the Group for annual period beginning on 1 January 2023.

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

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

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

(Continued)

Management is assessing the impact of the above amendments to standards and interpretations, which have been issued but are not yet effective for 2021, 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 2020.

### 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 2020.

#### 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 2021 and 31 December 2020 on a recurring basis:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>At 30 June 2021</b>				
<b>Financial assets</b>				
Financial assets at fair value through other comprehensive income				
– Listed equity security	1,409,009	–	–	1,409,009
– Unlisted equity securities	–	–	–	–
<b>At 31 December 2020</b>				
<b>Financial assets</b>				
Financial assets at fair value through other comprehensive income				
– Listed equity security	1,896,926	–	–	1,896,926
– 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 REVENUE AND 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	
	2021	2020
	HK\$'000	HK\$'000
<b>From continuing operations</b>		
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Disaggregated by major products or service lines		
– Provision of procurement services	2,121	–
– Sale of artificial intelligent system and related products	7,412	14,950
– Sale of wearable smart helmets	1,356	46,429
– Provision of technical support services based on AI technology	3,112	–
– Rental income	811	–
	14,812	61,379

## 6 REVENUE AND 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 or services 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
	2021	2020	2021	2020
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (audited)
PRC	12,609	41,444	636,614	574,147
Hong Kong	2,121	–	2	141
Other overseas countries	82	19,935	–	–
	14,812	61,379	636,616	574,288

\* 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	
	2021	2020
	HK\$'000	HK\$'000
<b>From continuing operations</b>		
Government grants	1,145	1,048
Sundry income	455	45
	<b>1,600</b>	<b>1,093</b>

## 8 OTHER GAINS/(LOSSES), NET

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
<b>From continuing operations</b>		
Exchange gains/(losses), net	2,674	(53)
Loss on disposal of a subsidiary	–	(42)
	<b>2,674</b>	<b>(95)</b>



## 9 OPERATING LOSS

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>From continuing operations</b>		
Cost of sales	7,878	43,567
Salaries, wages and other benefits	15,838	16,362
Amortisation of intangible assets	42	2,440
Depreciation of property, plant and equipment	1,801	2,071
Amortisation of right-of-use assets	5,826	6,798
Directors' emoluments	375	664
Operating lease expenses for office premises and warehouses relating to short-term leases	590	4,623
Reversal of impairment on other receivables	(14)	–
Reversal of impairment loss on trade receivables	(3,376)	(27,750)
Impairment loss on contract assets	4	–

## 10 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
<b>From continuing operations</b>		
Current income tax expenses		
Hong Kong profits tax	–	579
PRC Corporate Income Tax	–	57
	–	636

Notes:

- (i) During the six months ended 30 June 2021 and 2020, Hong Kong profits tax is calculated at the rate of 16.5% on the estimated assessable profit for each reporting period. No Hong Kong profits tax has been provided for the six months ended 30 June 2021 as the Group has no assessable profits derived in Hong Kong.
- (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% (2020: 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 (2020: 15%).

## 11 DIVIDEND

No dividend was paid, declared or proposed by the Company during the six months ended 30 June 2021.

## 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	
	2021	2020
	HK\$’000	HK\$’000
Loss for the period attributable to owners of the Company	(14,279)	(11,448)
Add: loss for the period from discontinued operations	–	101
Loss for the purpose of basic and diluted loss per share from continuing operations	(14,279)	(11,347)

### 13 LOSS PER SHARE (Continued)

#### From continuing operations (Continued)

	Unaudited	
	Six months ended 30 June	
Number of shares	2021 '000	2020 '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

#### 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	
	2021 HK\$'000	2020 HK\$'000
Loss for the period attributable to owners of the Company	(14,279)	(11,448)

For the six months ended 30 June 2021 and 2020, 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
<b>COST</b>								
At 1 January 2020	8,014	21,505	213	23,809	88	5,672	363,659	422,960
Additions	-	-	-	186	-	-	12,754	12,940
Disposal of a subsidiary	-	(12,960)	-	(8,230)	(88)	(492)	-	(21,770)
Currency translation differences	533	569	11	1,034	-	296	24,972	27,415
<b>At 31 December 2020 and</b>								
1 January 2021	8,547	9,114	224	16,799	-	5,476	401,385	441,545
Additions	5,153	-	-	-	-	-	8,226	13,379
Currency translation differences	80	85	1	154	-	44	3,751	4,115
<b>At 30 June 2021</b>	<b>13,780</b>	<b>9,199</b>	<b>225</b>	<b>16,953</b>	<b>-</b>	<b>5,520</b>	<b>413,362</b>	<b>459,039</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>								
At 1 January 2020	-	20,184	213	17,516	88	4,695	-	42,696
Depreciation	299	679	-	2,477	-	486	-	3,941
Disposal of a subsidiary	-	(12,960)	-	(8,230)	(88)	(492)	-	(21,770)
Currency translation differences	18	520	11	752	-	262	-	1,563
<b>At 31 December 2020 and</b>								
1 January 2021	317	8,423	224	12,515	-	4,951	-	26,430
Depreciation	207	290	-	1,211	-	93	-	1,801
Currency translation differences	3	73	1	117	-	45	-	239
<b>At 30 June 2021</b>	<b>527</b>	<b>8,786</b>	<b>225</b>	<b>13,843</b>	<b>-</b>	<b>5,089</b>	<b>-</b>	<b>28,470</b>
<b>CARRYING AMOUNTS</b>								
At 30 June 2021	13,253	413	-	3,110	-	431	413,362	430,569
At 31 December 2020	8,230	691	-	4,284	-	525	401,385	415,115

## 15 LEASES

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

	<b>Leased properties</b> HK\$'000	<b>Leasehold lands</b> HK\$'000	<b>Total</b> HK\$'000
Balance as at 1 January 2021	8,000	149,913	157,913
Addition	–	50,798	50,798
Amortisation charge	(2,858)	(2,968)	(5,826)
Exchange translation	69	1,392	1,461
Balance as at 30 June 2021 (unaudited)	<b>5,211</b>	<b>199,135</b>	<b>204,346</b>

### (b) Lease liabilities

	<b>Unaudited 30 June 2021</b> HK\$'000	<b>Audited 31 December 2020</b> HK\$'000
Non-current	<b>289</b>	378
Current	<b>243</b>	752
	<b>532</b>	1,130

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

	<b>Unaudited Six months ended 30 June</b>	
	<b>2021</b> HK\$'000	<b>2020</b> HK\$'000
Amortisation charge of right-of-use assets	<b>5,826</b>	6,798
Interest on lease liabilities	<b>13</b>	71
Expense relating to short-term leases	<b>590</b>	4,623
	<b>6,429</b>	11,492

## 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
<b>COST</b>					
At 1 January 2020	30,652	102,868	5,608	84,734	223,862
Disposal of a subsidiary	(29,102)	(97,667)	(5,324)	(69,607)	(201,700)
Currency translation differences	(1,550)	(5,201)	(284)	1,007	(6,028)
<b>At 31 December 2020 and 1 January 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,134</b>	<b>16,134</b>
<b>Addition</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>471</b>	<b>471</b>
<b>Currency translation differences</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>151</b>	<b>151</b>
<b>At 30 June 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,756</b>	<b>16,756</b>
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>					
At 1 January 2020	30,652	102,868	5,608	79,711	218,839
Amortisation	-	-	-	4,992	4,992
Disposal of a subsidiary	(29,102)	(97,667)	(5,324)	(69,607)	(201,700)
Currency translation differences	(1,550)	(5,201)	(284)	970	(6,065)
<b>At 31 December 2020 and 1 January 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,066</b>	<b>16,066</b>
<b>Amortisation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42</b>	<b>42</b>
<b>Currency translation differences</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>150</b>	<b>150</b>
<b>At 30 June 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,258</b>	<b>16,258</b>
<b>CARRYING AMOUNTS</b>					
<b>At 30 June 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>498</b>	<b>498</b>
At 31 December 2020	-	-	-	68	68

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

	Unaudited 30 June 2021 HK\$'000	Audited 31 December 2020 HK\$'000
Listed security:		
– Equity security (note)	1,409,009	1,896,926
Unlisted security:		
– Equity security	–	–
	<b>1,409,009</b>	<b>1,896,926</b>

Note: As at 30 June 2021, the Group hold 56,282,860 (31 December 2020: 71,528,751) ordinary shares of Kuang-Chi Technologies Co., Ltd. (“KCT”), representing 2.61% (31 December 2020: 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 period from 20 January 2021 to 8 February 2021, the Group disposed of 15,245,891 ordinary shares of KCT in the open market through a series of transactions. The aggregated net consideration on the disposal was approximately RMB385,718,000 (equivalent to approximately HK\$459,737,000).



## 18 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2021 HK\$'000	Audited 31 December 2020 HK\$'000
Trade receivables	67,080	222,010
Less: allowance for expected credit loss	(53,838)	(56,721)
Trade receivables, net	13,242	165,289
Deposits and other receivables	24,841	4,156
Prepayment to suppliers	194,175	1,237
Other prepayments	20,964	11,374
Value-added tax and other tax recoverable	17,546	13,710
	270,768	195,766
Less: non-current portion	(1,203)	(1,192)
	269,565	194,574

The following is an ageing analysis of trade receivables presented based on date of revenue recognition and net of allowance as at 30 June 2021 and 31 December 2020:

	Unaudited 30 June 2021 HK\$'000	Audited 31 December 2020 HK\$'000
0 to 90 days	10,957	162,906
91 to 180 days	–	–
181 to 365 days	–	64
1 to 2 years	1,400	2,319
2 to 3 years	885	–
	13,242	165,289

## 18 TRADE AND OTHER RECEIVABLES (Continued)

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

	Trade receivables HK\$'000	Contract assets HK\$'000	Total HK\$'000
At 1 January 2020	57,600	290	57,890
Provision for impairment loss	388	10,484	10,872
Currency translation differences	3,301	645	3,946
Uncollectible amounts written off	(4,568)	–	(4,568)
At 31 December 2020 and 1 January 2021	<b>56,721</b>	<b>11,419</b>	<b>68,140</b>
Provision for/(reversal of) impairment loss	<b>(3,376)</b>	<b>4</b>	<b>(3,372)</b>
Currency translation differences	<b>493</b>	<b>106</b>	<b>599</b>
At 30 June 2021	<b>53,838</b>	<b>11,529</b>	<b>65,367</b>

## 19 LOAN RECEIVABLES

	Notes	Unaudited 30 June 2021 HK\$'000	Audited 31 December 2020 HK\$'000
Loans to third parties	(a)	<b>2,368</b>	2,368
Less: provision for impairment of loan receivables	(a)	<b>(2,368)</b>	(2,368)
		–	–

Note:

- (a) As at 30 June 2021 and 31 December 2020, 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.

## 20 SHARE CAPITAL

Ordinary shares	Number of shares	Equivalent to HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 1 January 2020		
30 June 2020, 1 January 2021 and 30 June 2021	7,316,666,668	73,167
Issued and fully paid:		
At 1 January 2020, 30 June 2020, 1 January 2021 and 30 June 2021		
	6,156,928,860	61,569

## 21 OTHER RESERVES

	Financial assets at fair value through other comprehensive		Capital reserve	Contributed surplus	Share-based payment reserve	Exchange translation	Total
	Share premium	income reserve					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note a)	(Note b)	(Note c)		
At 1 January 2021	2,339,550	(21,619)	17,900	103,941	-	(26,004)	2,413,768
Currency translation differences	-	-	-	-	-	(5,577)	(5,577)
Fair value changes of financial assets at fair value through other comprehensive income, net of deferred tax	-	(82,744)	-	-	-	-	(82,744)
Gain on disposal of financial assets at fair value through other comprehensive income	-	48,061	-	-	-	-	48,061
Other comprehensive loss for the period	-	(34,683)	-	-	-	(5,577)	(40,260)
Transfer upon disposal of financial assets at fair value through other comprehensive income	-	(56,525)	-	-	-	-	(56,525)
Recognition of share-based payments	-	-	-	-	309	-	309
At 30 June 2021 (unaudited)	2,339,550	(112,827)	17,900	103,941	309	(31,581)	2,317,292

## 21 OTHER RESERVES (Continued)

	Share premium HK\$'000	Financial assets at fair value through other comprehensive income reserve 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	-	-	-	-	-	43,245	43,245
Fair value changes of financial assets at fair value through other comprehensive income, net of deferred tax	-	949,314	-	-	-	-	949,314
Other comprehensive income for the year	-	949,314	-	-	-	43,245	992,559
At 31 December 2020	2,339,550	(21,619)	17,900	103,941	-	(26,004)	2,413,768

### 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 22 April 2021.

## 22 BANK AND OTHER BORROWINGS

	Unaudited 30 June 2021 HK\$'000	Audited 31 December 2020 HK\$'000
Bank borrowings		
– Within 1 year	12,030	11,919
– Between 1 and 2 years	24,060	23,838
– Between 2 and 5 years	72,180	80,193
– Over 5 years	72,617	65,035
	<b>180,887</b>	180,985
Other borrowings		
– Within 1 year	–	315,854
	–	315,854
Total bank and other borrowings	<b>180,887</b>	496,839

As at 30 June 2021, the bank borrowings carried interest of approximately 6.7% to 7.4% p.a. (31 December 2020: 6.7% to 7.4% p.a.) which were secured by the right-of-use assets and the construction-in-progress, amounting to HK\$81,751,000 (31 December 2020: HK\$82,174,000) and HK\$413,362,000 (31 December 2020: HK\$401,385,000) respectively, and were guaranteed by the Company and a company which is controlled by Dr. Liu Ruopeng.

During the six months period end 30 June 2021, the other borrowings was fully repaid.

As at 30 June 2021, the total available banking facilities granted to the Group were approximately HK\$601,500,000 (31 December 2020: HK\$325,317,000), of which HK\$402,568,000 (31 December 2020: HK\$144,332,000) were not utilised.

## 23 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2021 HK\$'000	Audited 31 December 2020 HK\$'000
Trade payables	17,982	31,817
Accrued employee benefits	2,726	6,353
Value-added tax and other tax payable	8,197	7,786
Other payables and accruals	90,492	30,063
Accrued construction costs	57,239	60,680
	<b>176,636</b>	<b>136,699</b>

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 2021 HK\$'000	Audited 31 December 2020 HK\$'000
0 – 90 days	7,747	195
91-365 days	36	22,064
Over 1 year	10,199	9,558
	<b>17,982</b>	<b>31,817</b>

## 24 SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 31 July 2012, a share option scheme (the “Scheme”) was adopted by the Company. The purpose of the Scheme is to enable the Company to provide incentive to participants in recognition of their contribution to the Group. The directors of the Company may offer to grant any employee or director of the Company or any adviser, consultant, agent, contractor, customers and supplier of any member of the Group or whom the Board in its sole discretion considers eligible for the Scheme on the basis of his or her contribution to the Group.

On 22 April 2021, a total of 27,000,000 share options under the Scheme were granted (the “Share Options”). The exercise price was HK\$0.229. The details of the Share Options are summarised as follows:

	% of the total share	Share Options	
		Vesting period	Exercisable period
Tranche 1	33%	22 April 2021 to 22 April 2022	22 April 2022 to 21 April 2026
Tranche 2	33%	22 April 2021 to 22 April 2023	22 April 2023 to 21 April 2026
Tranche 3	34%	22 April 2021 to 22 April 2024	22 April 2024 to 21 April 2026
<b>Share Option</b>			
Recognised as expenses for the six months period ended 30 June 2021 (HK\$)			309,000
Number of Share Options granted to employees of the Company			27,000,000
Exercise price (HK\$)			0.229
Grant date			22 April 2021
Fair value on grant date (HK\$)			2,808,000

## 24 SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table lists the inputs to the fair value as at 22 April 2021 of the Share Options:

	<b>Share Options</b>
Share price at the date of grant (HK\$)	0.229
Exercise price (HK\$)	0.229
Expected volatility	71%
Risk-free interest rate (%)	0.60%
Exercise multiple	1.6
Expected dividend yield	Nil

The following table discloses movements of the Company's share options held by employees during the period:

Option type	Outstanding at 1 January 2021	Granted during the Period	Exercised during the Period	Forfeited during the Period	Outstanding at 30 June 2021
Share Options granted to employees	–	27,000,000	–	–	27,000,000
Total	–	27,000,000	–	–	27,000,000

The Group recognised an expense of approximately HK\$309,000 for the six months period ended 30 June 2021 in relation to Share Options granted by the Company.

## 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 2021 HK\$'000</b>	Audited 31 December 2020 HK\$'000
Contracted for Property, plant and equipment	<b>34,536</b>	26,250



## 26 RELATED PARTY TRANSACTIONS

### (a) Related party balances

	Unaudited 30 June 2021 HK\$'000	Audited 31 December 2020 HK\$'000
Trade payables – 深圳光啟超材料技術有限公司 (「深圳光啟超材料」)	1,756	21,660

### (b) Related party transactions

Name of parties	Nature of transactions	Unaudited Six months ended 30 June	
		2021 HK\$'000	2020 HK\$'000
深圳光啟超材料	Purchase of Wearable Smart Helmets and other materials	1,745	54,796

Note:

The director and controlling shareholder of the Company, Dr. Liu Ruopeng, is a controlling shareholder of 深圳光啟超材料. 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 or in accordance with the terms of the underlying agreements, where appropriate.

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 2021 and 2020.

## 27 SUBSEQUENT EVENT

There were no material events occurred after the period ended 30 June 2021.