KUANGCHI SCIENCE LIMITED
光 啟 科 學 有 限 公 司

(Incorporated in Bermuda with limited liability)
(Stock Code: 439)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board of directors (the "Board") of KuangChi Science Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries for the six months ended 30 June 2018 (the "Period") together with the comparative figures for the same period in 2017 (the "Comparative Period") as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	6	**91,070**	190,735
Cost of sales		**(84,759)**	(77,956)
Gross profit		**6,311**	112,779
Other income	7	**2,089**	68,631
Other (losses)/gains, net	8	**(715)**	609,349
Provision for impairment of goodwill		**–**	(32,364)
Selling and distribution expenses		**(21,926)**	(24,402)
Research and development expenses		**(94,988)**	(223,827)
Administrative expenses		**(69,225)**	(62,212)
Operating (loss)/profit		**(178,454)**	447,954
Finance income		**2,952**	6,932
Finance costs		**(7,842)**	(11,587)
Finance costs, net		**(4,890)**	(4,655)
Share of results of associates		**2,163**	(2,101)
(Loss)/profit before tax		**(181,181)**	441,198
Income tax expense	9	**(343)**	(91,575)
(Loss)/profit for the period		**(181,524)**	349,623
(Loss)/profit for the period attributable to:			
Owners of the Company		**(162,867)**	445,643
Non-controlling interests		**(18,657)**	(96,020)
		(181,524)	349,623

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
		2018	2017
	Note	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
(Loss)/profit for the period		**(181,524)**	349,623
(Losses)/earnings per share for the period attributable to owners of the Company	11		
Basic (HK cents per share)		**(2.65)**	7.38
Diluted (HK cents per share)		**(2.65)**	7.37
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(5,257)**	48,620
Changes in the fair value of available-for-sale financial assets		**–**	(235,730)
Items that may not be reclassified subsequently to profit or loss:			
Changes in the fair value of equity investments at fair value through other comprehensive income		**(369,352)**	–
Total comprehensive (loss)/income for the period		**(556,133)**	162,513
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(537,756)**	258,505
Non-controlling interest		**(18,377)**	(95,992)
		(556,133)	162,513

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

	Notes	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited) (Note)
ASSETS			
NON-CURRENT ASSETS			
Plant and equipment		**244,839**	228,409
Intangible assets and goodwill	12	**14,945**	15,438
Investment in associates		**29,992**	27,582
Financial assets at fair value through other comprehensive income	13	**1,082,113**	–
Available-for-sale financial assets		**–**	1,518,572
Prepaid land lease payments		**87,584**	89,900
Deposits paid for acquisition of plant and equipment		**23,193**	23,493
Long-term deposits, prepayments and other receivables		**25,885**	12,859
Total non-current assets		**1,508,551**	1,916,253
CURRENT ASSETS			
Inventories		**20,398**	20,472
Contract assets		**13,160**	–
Trade and other receivables	14	**431,488**	401,141
Loan receivables	15	**20,680**	24,224
Income tax recoverable		**3,782**	3,614
Time deposits		**–**	180,120
Cash and cash equivalents		**730,058**	787,477
Total current assets		**1,219,566**	1,417,048
Total assets		**2,728,117**	3,333,301
EQUITY			
Equity attributable to owners of the Company			
Share capital		**61,569**	61,569
Other reserves		**1,786,044**	2,159,252
Retained earnings		**74,777**	237,644
		1,922,390	2,458,465
Non-controlling interests		**57,937**	75,584
Total equity		**1,980,327**	2,534,049

Note: Under the transition methods chosen, comparative information is not restated for the initial adoption of HKFRS 9 and HKFRS 15. See Note 4 for details.

	Notes	**30 June 2018 HK$'000 (unaudited)**	31 December 2017 HK$'000 (audited) *(Note)*
LIABILITIES			
NON-CURRENT LIABILITIES			
Bank and other borrowing		**356,292**	360,955
Deferred income tax liabilities		**95,599**	159,086
Total non-current liabilities		**451,891**	520,041
CURRENT LIABILITIES			
Trade and other payables	16	**167,887**	223,935
Contract liabilities		**19,846**	–
Deferred government grants		**11,381**	11,528
Income tax payable		**8,695**	8,510
Bank and other borrowing		**88,090**	35,238
Total current liabilities		**295,899**	279,211
Total liabilities		**747,790**	799,252
Total equity and liabilities		**2,728,117**	3,333,301

Note: Under the transition methods chosen, comparative information is not restated for the initial adoption of HKFRS 9 and HKFRS 15. See Note 4 for details.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

KuangChi Science Limited (the "Company") and its subsidiaries (together, the "Company and its subsidiaries") are principally engaged in the research and development and manufacture of innovative products for future technology businesses, and the provision of other innovative technology service solutions. The Company and its subsidiaries mainly operate in the People's Republic of China (excluding Hong Kong) ("PRC"), Hong Kong, New Zealand and Canada.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited.

This condensed consolidated financial information is presented in Hong Kong dollars ("HK$"), unless otherwise stated.

The condensed consolidated financial information has been approved for issue by the Board on 22 August 2018. The condensed consolidated financial information has not been audited or reviewed by the external auditor.

2 BASIS OF PREPARATION

This condensed consolidated financial information for the six months ended 30 June 2018 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

This condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by HKICPA.

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

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements except for the adoption of Amendments to HKASs as described below.

(a) New and amended standards adopted by the Company and its subsidiaries

A number of new or amended standards became applicable for the current reporting period and the Company and its subsidiaries had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendments)	Clarifications to HKFRS 15

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 4. Other new or amended standards that did not result in a significant impact to the financial position and results of the Company and its subsidiaries are set out below:

HKFRS 2 (Amendment)	Classification and measurement of share-based payment transactions
HK (IFRIC) 22	Foreign currency transactions and advance consideration
HKAS 28 (Amendment)	Investment in associate and joint ventures
HKAS 40 (Amendments)	Transfer of investment property
HKFRS 1 (Amendment)	First time adoption of HKFRS

(b) Impact of standards issued but not yet applied by the Company and its subsidiaries

The following new standards and amendment to standards and interpretations have been issued but are not mandatory for the financial period beginning 1 January 2018 and have not been early adopted:

HKAS 19 (Amendments)	Employee benefits[(1)]
HKFRS 9 (Amendments)	Prepayment features with negative compensation [(1)]
HKFRS 16	Leases [(1)]
HKFRS 17	Insurance contracts [(2)]
HK(IFRIC)-Int23	Uncertainty over income tax treatments [(1)]
Amendments to HKFRS	Annual improvements to HKFRS 2015-2017 Cycle [(1)]
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate and joint venture [(3)]

(1) Effective for the Company and its subsidiaries for annual period beginning on 1 January 2019.

(2) Effective for the Company and its subsidiaries for annual period beginning on 1 January 2021.

(3) Effective date to be determined.

HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the operating leases of the Company and its subsidiaries. As at 30 June 2018, the Company and its subsidiaries have non-cancellable operating lease commitments of HK$9,483,000. However, the Company and its subsidiaries have not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect profit of the Company and its subsidiaries and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Company and its subsidiaries do not intend to adopt the standard before its effective date.

4 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the consolidated financial statements of the Company and its subsidiaries and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the consolidated financial statements

Changes in an entity's accounting policies may result in prior year consolidated financial statements to be restated. As explained in note (b) and (d) below, HKFRS 9 and HKFRS 15 were generally adopted without restating comparative information with the exception of certain aspects of hedge accounting under HKFRS 9. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the opening consolidated statement of financial position on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

	31 December 2017	Impact on application of HKFRS 9	Impact on application of HKFRS 15	1 January 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Consolidated statement of financial position (extract)				
Non-current assets				
Financial assets at fair value through other comprehensive income	–	1,518,572	–	1,518,572
Available-for-sale financial assets	1,518,572	(1,518,572)	–	–
Current assets				
Trade and other receivables	401,141	–	(13,329)	387,812
Contract assets	–	–	13,329	13,329
Total assets	3,333,301	–	–	3,333,301
Current liabilities				
Trade and other payables	223,935	–	(9,397)	214,538
Contract liabilities	–	–	9,397	9,397
Total liabilities	799,252	–	–	799,252

(b) HKFRS 9 Financial Instruments – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in the note below.

(i) ***Classification and measurement***

On 1 January 2018 (the date of initial application of HKFRS 9), management of the Company and its subsidiaries has assessed which business models apply to the financial assets held by the Company and its subsidiaries and has classified its financial instruments into the appropriate HKFRS 9 categories. The effects resulting from this reclassification are as follows:

	Note	Available-for-sale financial assets	Financial assets at fair value through other comprehensive income
		HK$'000	*HK$'000*
Closing balance 31 December 2017 – HKAS 39		1,518,572	–
Reclassify non-trading equities from available-for-sale financial assets to financial assets at fair value through other comprehensive income	(a)	(1,518,572)	1,518,572
Opening balance 1 January 2018 – HKFRS 9		–	1,518,572

The impact of these changes on the equity of the Company and its subsidiaries is as follows:

	Note	Effect on available-for-sale financial assets reserve ("AFS reserve")	Effect on financial assets at fair value through other comprehensive income reserve ("FVOCI reserve")
		HK$'000	*HK$'000*
Closing balance 31 December 2017 – HKAS 39		(363,041)	–
Reclassify non-trading equities from available-for-sale financial assets to financial assets at fair value through other comprehensive income	(a)	363,041	(363,041)
Opening balance 1 January 2018 – HKFRS 9		–	(363,041)

Note a: The Company and its subsidiaries elected to present changes in the fair value of all its equity investments previously classified as available-for-sale financial assets in other comprehensive income, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, available-for-sale financial assets of HK$1,518,572,000 were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income, and accumulated fair value changes of HK$363,041,000 were reclassified from AFS reserve to FVOCI reserve on 1 January 2018.

For other classes of financial assets and financial liabilities of the same carrying amounts in accordance with HKAS 39 and HKFRS 9 on 1 January 2018, the measurement categories of each material class of financial assets and liabilities were as follows:

	Measurement category under HKAS 39	Measurement category under HKFRS 9
Financial assets		
Trade receivables	Amortised cost	Amortised cost
Contract assets	Amortised cost	Amortised cost
Deposits, prepayments and other receivables	Amortised cost	Amortised cost
Loan receivables	Amortised cost	Amortised cost
Time deposits	Amortised cost	Amortised cost
Cash and cash equivalents	Amortised cost	Amortised cost
Financial liabilities		
Trade and other payables	Amortised cost	Amortised cost
Contract liabilities	Amortised cost	Amortised cost
Deferred government grants	Amortised cost	Amortised cost
Bank and other borrowing	Amortised cost	Amortised cost

(ii) Impairment of financial assets

The Company and its subsidiaries have three types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- Trade receivables
- Contract assets, and
- Other financial assets at amortised cost

The Company and its subsidiaries were required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the retained earnings and equity of the Company and its subsidiaries are disclosed in the table in Note 4(a) above.

While cash and cash equivalents and time deposits are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables and contract assets

For trade receivables and contract assets, the Company and its subsidiaries apply the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company and its subsidiaries have therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of revenue from the corresponding customer at each report date and their historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle the receivables. The Company and its subsidiaries have identified the credit rating of customers to be the one of the most relevant factors, and accordingly adjust the historical loss rates based on expected changes in these factors.

Since the customers are primarily local government related entities, the directors of the Company and its subsidiaries considered the credit risk is not high and expected credit loss is minimal.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a customer to establish a repayment plan with the Company and its subsidiaries and to make contractual payments accordingly.

Other financial assets at amortised cost
All other financial assets at amortised cost of the Company and its subsidiaries have their carrying amounts approximated their fair values due to their short maturity at the reporting date. For the six months ended 30 June 2018, there was no additional provision for impairment on these receivables.

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

(i) Investments and other financial assets classification

From 1 January 2018, the Company and its subsidiaries classify their financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through profit or loss, or through other comprehensive income), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss, or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Company and its subsidiaries have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Company and its subsidiaries reclassify debt investments when and only when its business model for managing those assets changes.

Measurement
At initial recognition, the Company and its subsidiaries measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Equity instruments
The Company and its subsidiaries subsequently measure all equity investments at fair value. Where the management of the Company and its subsidiaries have elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the right of the Company and its subsidiaries to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in other (losses)/gains, net in the consolidated statement of profit or loss and other comprehensive income stated as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

Impairment
From 1 January 2018, the Company and its subsidiaries assess on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company and its subsidiaries apply the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(d) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Company and its subsidiaries have adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The Company and its subsidiaries have elected to use the cumulative effect transition method and have recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Company and its subsidiaries have applied the new requirements only to contracts that were not completed before 1 January 2018.

	HKAS 18 carrying amount 31 December 2017	**Reclassifica – tion**	**HKFRS 15 carrying amount 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade and other receivables	401,141	(13,329)	387,812
Contract assets	–	13,329	13,329
Trade and other payables	223,935	(9,397)	214,538
Contract liabilities	–	9,397	9,397

Presentation of assets and liabilities related to contracts with customers

The Company and its subsidiaries have also voluntarily changed the presentation of certain amounts in the consolidated statement of financial position to reflect the terminology of HKFRS 15:

- Contract assets recognised in relation to revenue contracts of maintenance service income of Cloud, which were previously presented as part of trade and other receivables (HK$13,329,000 as at 1 January 2018).

- Contract liabilities represent receipts in advance from customers in relation to a revenue contract of sales of Cloud, which was previously included in trade and other payables (HK$9,397,000 as at 1 January 2018).

(e) IFRS 15 Revenue from Contracts with Customers – Accounting policies

(a) Revenue from sales of "Cloud"

The "Cloud" is a flying apparatus platform providing integrated services including communication, internet access, big data collection and analysis. Revenue is recognised at a point in time when hardware and/or software products are delivered and installed at the customers' specific location with their signed acceptance and the Company and its subsidiaries have present right to payment and the collection of the consideration is probable.

(b) Revenue from provision of maintenance services of "Cloud"

Services of "Cloud" represent maintenance services in relation to future technology business. Revenue from the maintenance services is recognised over time as maintenance services are transferred over time, and customers simultaneously receive and consume the benefits from maintenance service provided by the Company and its subsidiaries.

(c) ***Revenue from provision of wifi network equipment and installation services***

Revenue from provision of wifi network installation services is recognised at a point in time when hardware and/or software products are delivered and installed at the customers' specific location with their signed acceptance and the Company and its subsidiaries have present right to payment and the collection of the consideration is probable.

(d) ***Revenue from sales of electronic components***

Revenue from sales of electronic components is recognised at a point in time when electronic components are delivered to customers' specific location and the Company and its subsidiaries have present right to payment and the collection of the consideration is probable.

5 ESTIMATES

The preparation of interim 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 these condensed consolidated financial information, the significant judgements made by management in applying the accounting policies of the Company and its subsidiaries 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 2017.

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 Company and its subsidiaries on a consolidated basis. Therefore, the operation of the Company and its subsidiaries constitutes one single reportable segment and no further analysis of segments is presented.

(a) Geographical information

The Company and its subsidiaries operate in four principal geographical areas - PRC, Hong Kong, New Zealand and Canada.

Information about the revenue from operations of the Company and its subsidiaries from external customers is presented based on the location of the goods delivered. Information about the non-current assets of the Company and its subsidiaries is presented based in the geographical locations of the assets.

	Revenue from external customers		**Non-current assets***	
	Six months ended 30 June		**30 June**	31 December
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(audited)
PRC	**15,466**	190,705	**347,134**	328,944
Hong Kong	**75,604**	30	**257**	1,210
New Zealand	**–**	–	**9,059**	12,060
Canada	**–**	–	**15,546**	15,956
	91,070	190,735	**371,996**	358,170

* Non-current assets exclude financial instruments, available-for-sale financial assets, financial assets at fair value through other comprehensive income, investment in associates and partial long-term deposits, prepayments and other receivables.

(b) Disaggregation of revenue from contracts with customers

During the six months ended 30 June 2018 and 2017, all sources of revenue were recognised at a point in time, except for rental income of HK$30,000 generated during the six months ended 30 June 2017.

7 OTHER INCOME

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Dividend income from the investment in Kuang-Chi Technologies Co., Ltd. ("KCT")	**568**	–
Government grants	**856**	68,004
Sundry income	**665**	627
	2,089	68,631

8 OTHER (LOSSES)/GAINS, NET

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss on deemed disposal of a subsidiary	**–**	(18,091)
Loss on disposal of plant and equipment	**(614)**	(150)
Fair value gains of derivative financial assets	**–**	616,404
Exchange (losses)/gains, net	**(101)**	11,100
Others	**–**	86
	(715)	609,349

9 INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current income tax expense		
Hong Kong profits tax *(Note (i))*	**343**	–
PRC Corporate Income Tax *(Note (ii))*		
– Current period	**–**	5,394
– Over-provision in prior years	**–**	(6,280)
	343	(886)
Deferred income tax expense	**–**	92,461
	343	91,575

Notes:

(i) During the six months ended 30 June 2018, Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profit. During the six months ended 30 June 2017, no Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the period.

(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 Company and its subsidiaries operate.

The tax rate applicable to subsidiaries in the PRC is 25% (2017: 25%), except for 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 rate at 15% for 3 years from 2016 to 2019 (2017: 15%).

10 DIVIDEND

No dividend was paid, declared or proposed by the Company during the six months ended 30 June 2018 (2017: Nil).

11 (LOSSES)/EARNINGS PER SHARE

The calculation of the basic and diluted (losses)/earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss)/profit attributable to owners of the Company for the purpose of basic and diluted (losses)/earnings per share	**(162,867)**	445,643

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
Number of shares (in thousands)		
Weighted average number of ordinary shares for the purpose of basic (losses)/earnings per share	**6,156,929**	6,038,863
Effect of dilutive potential ordinary shares:		
– Share options of the Company	**–**	8,027
Weighted average number of ordinary shares for the purpose of diluted (losses)/earnings per share	**6,156,929**	6,046,890

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
Basic (losses)/earnings per share (HK cents per share)	**(2.65)**	7.38
Diluted (losses)/earnings per share (HK cents per share)	**(2.65)**	7.37

For the six months ended 30 June 2018, the computation of diluted (losses)/earnings for share does not assume the exercise of share options of the Company, the conversion of a subsidiary's outstanding convertible debenture, or the exercise of the outstanding share options issued by loss-making subsidiaries of the Company and its subsidiaries since their assumed conversion or exercise would result in an decrease in losses per share.

12 INTANGIBLE ASSETS AND GOODWILL

	Goodwill	Capitalised development cost	Software	Technical knowhow and patents	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST					
At 1 January 2017	80,945	107,848	5,711	125,218	319,722
Additions	–	25,091	47	241	25,379
Disposal through deemed disposal of a subsidiary	(39,382)	(28,554)	–	(47,436)	(115,372)
Currency translation differences	65	1,199	(1)	858	2,121
At 31 December 2017 and 1 January 2018	41,628	105,584	5,757	78,881	231,850
Currency translation differences	40	(1,226)	(67)	(803)	(2,056)
At 30 June 2018	41,668	104,358	5,690	78,078	229,794
ACCUMULATED AMORTISATION AND IMPAIRMENT					
At 1 January 2017	39,382	–	3,817	20,433	63,632
Amortisation	–	–	540	4,774	5,314
Disposal through deemed disposal of a subsidiary	(39,382)	–	–	(7,710)	(47,092)
Provision for impairment	32,364	106,006	1,407	55,378	195,155
Currency translation differences	–	(422)	(7)	(168)	(597)
At 31 December 2017 and 1 January 2018	32,364	105,584	5,757	72,707	216,412
Amortisation	–	–	–	555	555
Currency translation differences	–	(1,226)	(67)	(825)	(2,118)
At 30 June 2018	32,364	104,358	5,690	72,437	214,849
CARRYING VALUES					
At 30 June 2018	9,304	–	–	5,641	14,945
At 31 December 2017	9,264	–	–	6,174	15,438

For the purposes of impairment testing, goodwill and technical knowhow and patents have been allocated to each individual cash generating units ("CGU").

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Listed security:		
– Equity security *(Note)*	**992,977**	–
Unlisted securities:		
– Equity securities	**89,136**	–
	1,082,113	–

Note: As at 30 June 2018, the Company and its subsidiaries held 3.32% of the ordinary shares of KCT (31 December 2017: 3.32%), while Shenzhen Kuang-Chi Hezhong Technology Limited, which is partially owned by the directors of the Company, Dr. Liu Ruopeng, Dr. Zhang Yangyang and Dr. Luan Lin with shareholding of 35.09%, 17.54% and 15.79% respectively, holds indirectly more than 5% of the shareholding of KCT.

14 TRADE AND OTHER RECEIVABLES

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**411,110**	358,856
Less: Provision for impairment of trade receivables	**(24,599)**	(24,916)
Trade receivables, net	**386,511**	333,940
Deposits and other receivables	**16,248**	17,893
Interest receivables	**–**	4,096
Prepayment for advertising	**2,796**	5,664
Prepayments to suppliers	**24,019**	38,282
Prepaid rentals	**33,069**	19,463
	462,643	419,338
Less: Provision for impairment of prepayment and doubtful receivables	**(5,270)**	(5,338)
	457,373	414,000
Less: Non-current portion	**(25,885)**	(12,859)
	431,488	401,141

The following is an ageing analysis of trade receivables presented based on the revenue recognition date, at the end of each reporting period:

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0-90 days	**39,582**	94,958
91-180 days	**38,129**	31,063
181-365 days	**110,762**	–
Over 365 days	**198,038**	207,919
	386,511	333,940

Movements in the provision for impairment of trade receivables are as follows:

	HK$'000
	(audited)
At 1 January 2017	–
Provision for doubtful receivables	23,993
Currency translation differences	923
At 31 December 2017 and 1 January 2018	24,916
Currency translation differences	(317)
At 30 June 2018	24,599

The Company and its subsidiaries apply the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets.

The Company and its subsidiaries determine the provision for expected credit losses by grouping together trade receivables and contract assets with similar credit risk characteristics and collectively assessing from them for likelihood of recovery, taking into account prevailing economic conditions. For trade receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance.

As at 30 June 2018, the expected credit loss is minimal as the majority of the trade receivables are due from governmental authorities in the PRC.

15 LOAN RECEIVABLES

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Current portion		
– Loan to a related party	**20,680**	24,224
– Loan to a third party	**2,378**	2,368
– Loan to an associate	**21,218**	22,378
	44,276	48,970
Less: Provision for bad debt	**(23,596)**	(24,746)
	20,680	24,224

16 TRADE AND OTHER PAYABLES

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Trade payables	**52,280**	48,661
Receipt in advance	**–**	9,397
Accrued employee benefits	**9,896**	22,192
Other tax payables *(Note a)*	**63,747**	94,058
Other payables and accruals	**41,964**	49,627
	167,887	223,935

Notes:

(a) At 30 June 2018, other tax payables mainly include value-added tax payables amounting to HK$53,789,000 (31 December 2017: HK$82,655,000) arising mainly from the sale of Clouds.

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

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade payables		
0-90 days	**32,612**	36,223
Over 90 days	**19,668**	12,438
	52,280	48,661

17 SUBSEQUENT EVENT

SkyX Limited ("SkyX") is a non-wholly subsidiary of the Company. On 9 August 2018, the Company and a new investor (together, the "Investors") entered into another preferred share purchase agreement (Series-B PSP) with SkyX. Pursuant to terms of Series-B PSP, the Investors acquired additional preferred shares in consideration for conversion of respective indebtedness and/or cash consideration. Subsequent to the acquisition by the Investors on 9 August 2018, the Company held 2,225,963 preferred shares of SkyX. The Company will hold 53.5% of the ordinary share capital of SkyX when all of the preferred shares of the Investors are converted based on the number of ordinary shares in issue as at 9 August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW AND PROSPECTS

The Company and its subsidiaries are principally engaged in the research and development and manufacture of innovative products for future technology businesses, and the provision of other innovative technology service solutions (the "Future Technology Business"). During the six months ended 30 June 2018 (the "Period"), the Company and its subsidiaries recorded turnover of HK$91,070,000, which decreased by 52.25% compared to the period ended 30 June 2017. Net loss for the Period was HK$181,524,000 (2017: net profit of HK$349,623,000). There was an after-tax gains from fair value changes of derivative financial assets of HK$524 million for the six months ended 30 June 2017, whereas there was no such gains for the Period. Basic losses per share for the Period was 2.65 HK cents.

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

The Company and its subsidiaries put their focus on the Future Technology Business. Currently, they are committed to building future smart cities by developing and integrating different future technologies, including "future artificial intelligence (AI)" technology and "future space" technology. Such technology will allow them to provide a comprehensive range of innovative products, services and solutions, thereby enhancing service efficiency, satisfying residents' needs, upgrading living quality and, in particular, solving various problems that are faced by human beings.

With its "future AI" technology business, the Company and its subsidiaries started the positioning and planning in the AI industry in 2014, explored the demand and application in different sectors, pursued the expansion and diversification of the future city business. During the Period, the Company and its subsidiaries focused on exploring urban security and management, allowing full-intelligent security applications in the security field, and further infiltration into various vertical industries. During the Period, the Company's self-developed "Super Intelligent System" used the Super Intelligent Engine as cloud, relying on the powerful function of instant access to intelligence of the Super Intelligent Engine and access to large-scale perceiving-end. A complete closed loop from the perceiving-end to the business- application- end is formed, make possible the applications in high-end areas, pilot cooperation with public security unit in a certain region of Shanghai, and launch of business connection with public security and political and legal systems units in other regions of Shanghai and other provinces and cities, committing to promote the practical application of "Super Intelligent System" in the area of security and management in more provinces and cities. During the same period, the Company and its subsidiaries gradually expanded application of the system to other application areas such as smart transportation and safe communities by combining with practical functions of the Super Intelligent System. During the period, the Company and its subsidiaries continued to promote the business development of "Smart City". The Qianhai public super-hi speed WIFI network project and the "Smart City" pilot project in Fuyang City of Anhui Province progressed steadily while a new "Smart City" pilot cooperation project is launched to develop smart transportation and build an urban management and control platform in support of smart city projects in more cities. In addition, the Company and its subsidiaries continued to promote the application of life voice recognition and video analytics identification along with other products and solutions in the pharmaceutical industry and smart cities. It also promoted in Agent Video Intelligence Ltd. ("Agent VI"), an Israeli video analytics solution provider, and Beyond Verbal Communications Ltd. ("Beyond Verbal"), a health and emotions analytics solution provider, and assisted their development in the PRC market as well as the establishment of smart cities.

In terms of the "future space" technology business, during the Period, the Company and its subsidiaries continued to commit to developing solutions for intergenerational flight and float platforms applied in urban safety, emergency and environmental protection, and steadily promoting the commercialization process. The "Cloud" project completed normal staying-in-air and maintenance, and furthered relevant application. Technological breakthrough was made in the near-space flying apparatus "Traveller IV". During the period, commercialization of low-flying aircrafts "KC60" and "H1" achieved results by phases, which were respectively applied to air emergency rescue and sustained air communication monitoring. In the same period, the Company further promoted the development of unmanned aerial vehicle for inspection of pipelines of energy facilities and the commercialization process of automatic remote solution of unmanned aerial vehicle, the "SkyX" project, and discussed with customers from a number of countries around the world on cooperation.

"Super Intelligent Engine" instant-access intelligence allows high-end applications, leading the way to intelligence for the security market

"Super Intelligent Engine" is a back-stage radar system independently developed by the Company and its subsidiaries with sophisticated computing and massive data throughput capabilities and a number of applications unmatched by traditional information systems. With instant-access intelligence, high compatibility, supporting access to all smart terminals including camera sensors and Wifi probes, etc., "smartization" of these sensing points through accessing to the engine is possible as well as "one person one file", "one vehicle one file", "multi-domain triggering", and retroactive and future tracking of key persons on the basis of time and space of events. Through access to multi-dimensional sensing points and data logging, it is capable of big data integration of multi-dimensional temporal and spatial domain for research and analysis of the said domain and multi-information domain. In response to the demand for urban security and management, when applied with various smart perceiving units, active detection, prevention, early warning and forecasting of cases instead of passive subsequent handling is possible. With the defense strategy of security based on prediction, early warning and prevention, trampling of crowds in key areas of public order can be prevented and quick tracking and handling of cases is possible. An integrated platform with tactical control such as policing equipment and unmanned aircraft is formed, significantly improving efficiency of policing while considerably reducing the possibility of crimes and substantially liberating public security officers from low-level work.

During the Period, the "Super Intelligent System" focused on its applications in urban security and management, and was piloted by public security authorities in Shanghai. In the same period, the System preliminarily achieved face recognition of "specific targets" from long distance and functions such as instant tracking and backtracking, and is tested for debugging at relevant police stations. The layout of near-thousand photoelectric radar sensing front-end bits in the pilot area and assembly and construction of server of the System in the engine room is completed. Unlike various existing public security systems, the System makes possible the functions of instant file creation, tracking, identification, backtracking, etc. on the basis of persons. It is expected that the System will be fully operational in the third quarter, helping the relevant regions in Shanghai to become the world's first all- intelligent security and defense region. In the same period, in-depth negotiations on the "Super Intelligent System" project in other regions in Shanghai were conducted. Based on the endorsement of the System, public security authorities in other regions of Shanghai wish to introduce the project in more regions.

During the Period, the connection of the System with units of public security, political and legal system in various provinces and cities was activated, and discussion on cooperation in markets including Chongqing and Hebei was conducted to promote the practical application of the System in the area of security and management in more provinces and cities. In addition, the Company and its subsidiaries gradually expand the practical functions of the System to more application areas such as smart transportation and safe communities, facilitating the promotion of smart security and construction of smart city. During the Period, the "Smart City" pilot project in Fuyang City of Anhui Province continued to develop steadily and the joint establishment between Shenzhen Kuangchi Zhiyun Information Co., Ltd., a indirect wholly-owned subsidiary of the Company, and local enterprises in Fuyang has started operation of providing design and control platform solutions of video surveillance, with the focus on developing "smart transportation" project to solve the issue of heavy fog affecting traffic safety in Fuyang region. Video surveillance construction solution based on the Super Intelligent System is bundled with smart transportation, and is accessible to smart parking system and smart street lights, forming an urban management and control center and an integrated common platform for such center of the Fuyang municipal government. During the same period, the pilot project of Shenzhen Qianhai "Smart City" participated by Shenzhen Kuangchi Zhiyun Information Co., Ltd. a indirect wholly-owned subsidiary of the Company, continued to progress steadily and the Qianhai public high-speed WIFI network project it mainly responsible for have achieved results by phases.

Management believes that the "Super Intelligent System" is in a boundless market with a focus on comprehensive management. With the successful application of the System in the area of security and the accumulation of quality big data, we will gradually further develop in various vertical industries including comprehensive management and security market as well as smart city operation and services, and promote the "Super Intelligent System" as the standard smart city infrastructure in the future.

Applications of intergenerational flight and air platform solutions further development, and commercialization process steadily progressed

During the Period, the "Cloud" of the new city has completed testing on an irregular basis, and the system is in a stable state and has now entered the sustained flight phase. The existing "Cloud" project has completed normal staying-in-air and maintenance, and the relevant work of application continued to further develop, with newly-launched applications including first round of four further application development and delivery of reservoir dynamic monitoring system of the Agriculture, Animal Husbandry and Water Resources Bureau, emergency management platform of the emergency office, optical remote sensing control system of traffic police brigade and cloud space big data APP. With the market recognition of the "Cloud", its features are paid with attention in more areas and in-depth exploration and cooperation with more partners is carried out in the areas of urban security management, anti-terrorism and riot control, monitoring of major dams, comprehensive monitoring of forests and management and control of large-scale events. During the Period, optimization design and test verification of the thermal control system of "Traveller IV" was completed, with the issue of sustained insulation and heat dissipation under limited energy conditions solved. Design and optimization of various module plans in fire protection, rescue and anti-terrorism of unmanned aircraft emergency rescue system "KC-60" was completed, and fire-fighting demonstration for fire stations and professional emergency organizations in various areas was conducted. During the Period, a number of invention patents have been submitted, and the technical standards of the KC-60 module will be further upgraded in the future for the actual needs in the application of emergency rescue, military use, agriculture and forestry conservation, pipeline inspection as well as logistics and transportation. The commercialization and industrialization of products will be expanded and accelerated. During the Period, the research and development of serialized products of "H1" tethered unmanned aircraft has completed. For emergency fire protection, the product has been finalized and fire drills were completed in a number of locations. For emergency communication, scheme design and prototypes manufacturing have been completed as well as long flight testing. In the future, expansion of capabilities of "H1" tethered unmanned aircraft will continue based on market demands. In the same period, discussion regarding cooperation on "SkyX" has conducted with a number of potential clients from South Africa, Mexico, Argentina, Nigeria, and the United States, with cooperation draft agreements signed with some of them and consisting over one thousand kilometers of potential cooperation distance.

Manpower development and construction

With regard to staff construction, the Company strengthened the talent nurturing system and designed new employee development system and mechanism to enhance staff quality. The Company and its subsidiaries will adopt the core strategy to continue to attract and nurture high-calibre employees, while introducing talents on space technology and AI at a global level. During the Period, the Company and its subsidiaries brought in 112 experts of high and new technology from around the world. As at 30 June 2018, the number of experts totaled 534, with 29% of them holding master's degree or above. This has provided a strong talent foundation that in turn strengthened our core competitiveness.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2018 (2017: Nil).

CAPITAL STRUCTURE

As at 30 June 2018, the Group had a registered and issued ordinary share capital of approximately HK$61,569,289.

As at 30 June 2018, the Group had bank and other borrowing of approximately HK$444,382,000 (as at 31 December 2017: approximately HK$396,193,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Company and its subsidiaries' total shareholders' funds amounted to approximately HK$1,980,327,000 (31 December 2017: HK$2,534,049,000). Total assets was approximately HK$2,728,117,000 (31 December 2017: HK$3,333,301,000) and total liabilities was approximately HK$747,790,000 (31 December 2017: HK$799,252,000).

As at 30 June 2018, the Company and its subsidiaries had cash and cash equivalents of approximately HK$730,058,000 (31 December 2017: HK$787,477,000), and the Company and its subsidiaries had no time deposit (31 December 2017: HK$180,120,000). The gearing ratio as of 30 June 2018, defined as the percentage of the total interest bearing debt, including bank and other borrowing of approximately HK$444,382,000 (31 December 2017: HK$396,193,000) to net asset value, was approximately 22.4% (31 December 2017: 15.63%).

The Company and its subsidiaries' business operations and investments are located in the PRC, Hong Kong, New Zealand and Canada. As at 30 June 2018, cash and cash equivalents denominated in local currency and foreign currencies mainly included HK$77,151,000, RMB152,214,000, NZD6,702,000, USD50,889,000 and CAD5,694,000 (31 December 2017: HK$133,764,000, RMB183,320,000, NZD3,921,000, USD53,869,000 and CAD5,624,000) respectively. Other than described above, most of the assets, liabilities and transactions of the Company and its subsidiaries are primarily denominated in HK$ and RMB. The Company and its subsidiaries have not entered into any instruments on the foreign exchange exposure. The Company and its subsidiaries will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

Investment in SkyX

On 21 September 2015, the Company and SkyX Limited ("SkyX") entered into a preferred shares purchase agreement (the "PSP Agreement"), pursuant to which the Company agreed to acquire 738,916 preferred share of SkyX for consideration amounted to US$1,500,000 and upon SkyX fulfilling certain conditions (the "SkyX Conditions"), the Company will further acquire an additional 1,268,634 preferred shares of SkyX for an additional cash consideration amounting to US$3,500,000. Pursuant to the PSP Agreement, the Company acquired additional preferred shares of SkyX on 9 September 2016 of 775,194 shares, 12 May 2017 of 168,350 shares, 21 June 2017 of 168,350 shares and 27 June 2018 of 156,740 shares for cash considerations amounting to USD2,000,000, USD500,000, USD500,000 and USD500,000 respectively, as certain SkyX conditions were fulfilled.

As at 30 June 2018, the Company held 2,007,550 preferred shares of SkyX which are currently convertible into 2,007,550 ordinary shares of SkyX, subject to anti-dilution adjustments. All preferred shares of SkyX to be acquired by the Company pursuant to the PSP Agreement will be convertible into ordinary shares of SkyX upon subscription. The Company will hold 66.7% of the ordinary share capital of SkyX when all the 2,007,550 preferred shares are converted based on the number of ordinary shares in issue as at 30 June 2018.

Saved as disclosed above, the Group did not have any other significant investment and there are no other material acquisition or disposal of subsidiaries and associated company during the period.

On 9 August 2018, the Company and a new investor entered into another preferred share purchase agreement with SkyX. Details please refer to Note 17 to the condensed consolidated financial information.

Removal from the Official List of the Australian Securities Exchange by a Non-Wholly-Owned Subsidiary Voluntarily

During the six months ended 30 June 2018, Martin Aircraft Company Limited ("MACL"), a subsidiary of the Company listed on the Australian Securities Exchange (the "ASX"), was removed from the official list of the ASX during the period ended 30 June 2018.

On 8 March 2018, the ASX conditionally approved MACL's application on the removal from the official list of the ASX (the "Proposed Privatisation"). On 1 May 2018, shareholders of MACL further approved the Proposed Privatisation and arranged to transition the shares of MACL to the Unlisted Securities Exchange (the "USX") in the special shareholders meeting. The shares of MACL were no longer traded on ASX since the close of trading on 4 June 2018, and commenced trading on the USX on 7 June 2018.

MACL remains as a non-wholly owned subsidiary of the Company before and after the Proposed Privatisation.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Practices

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

Throughout the Period under review, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (the "CG Code"), except for 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 the annual general meeting. The chairman of the board of directors Dr. Liu Ruopeng, non-executive director Mr. Song Dawei and two independent non-executive directors Dr. Liu Jun and Ms. Cao Xinyi, did not attend the annual general meeting held on 30 May 2018, 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 (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the directors. All directors have confirmed, following specific enquiry procedures by the Company, that they had complied with the requirements as set out in the Model Code throughout the Period.

Change of directors' information

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

– Mr. Ko Chun Shun, Johnson ("Mr. Ko") has been appointed as executive director of Branding China Group Limited (Stock Code: 863), the shares of which are listed on the Stock Exchange with effect from 16 April 2018.

Save as disclosed above, as at 30 June 2018, there is no other change of directors' information which is discloseable in the 2018 Interim Report in accordance with Rule 13.51B (1) of the Listing Rules. After the Period, Mr. Song Dawei was resigned as non-executive director of the Company with effect from 1 August 2018.

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.

Review of Interim Results

The interim results for the six-month period ended 30 June 2018 have been reviewed by the Company's Audit Committee. The Audit Committee meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group, the risk management and internal control systems, and the financial reporting matters.

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

Hong Kong, 22 August 2018

As at the date of this announcement, the Board comprises four executive Directors, namely Dr. Liu Ruopeng, Dr. Luan Lin, Dr. Zhang Yangyang and Mr. Dorian Barak; one non-executive Director, namely Mr. Ko Chun Shun, Johnson; and three independent non-executive Directors, namely Dr. Liu Jun, Dr. Wong Kai Kit and Ms. Cao Xinyi.