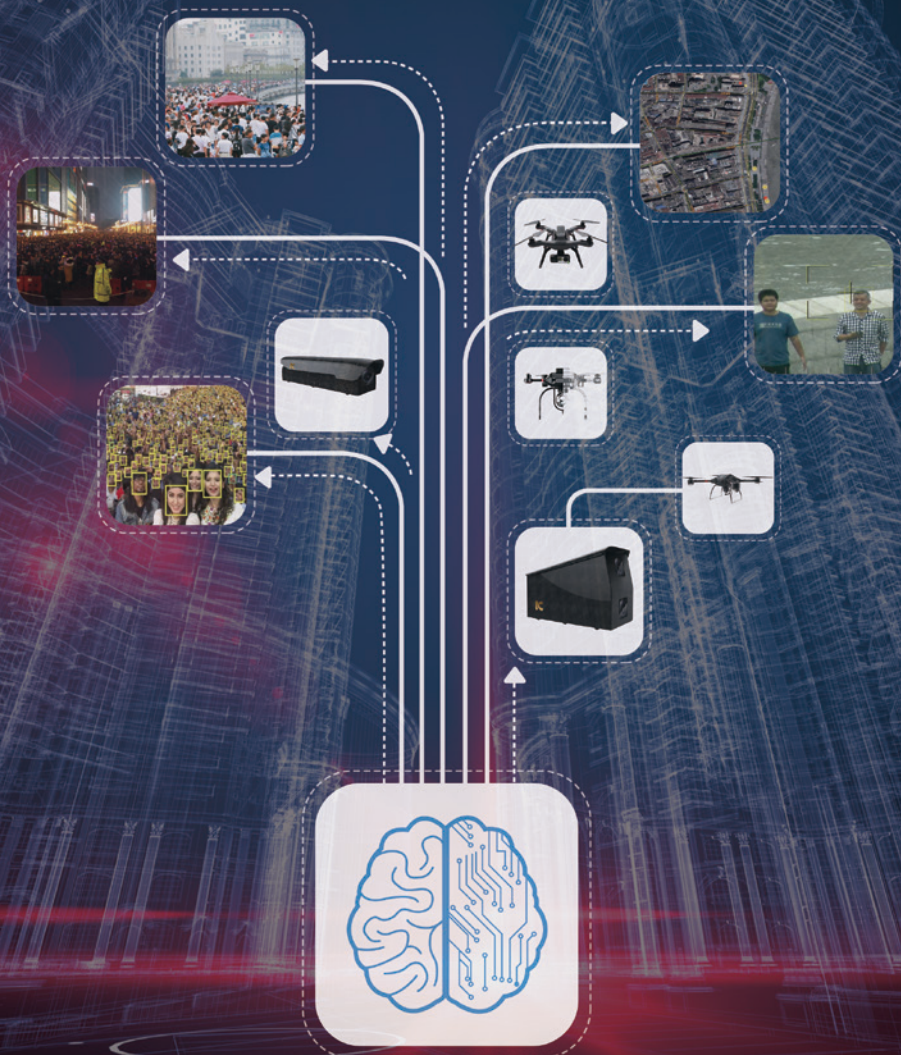


2018 Interim Report

KUANGCHI SCIENCE LIMITED

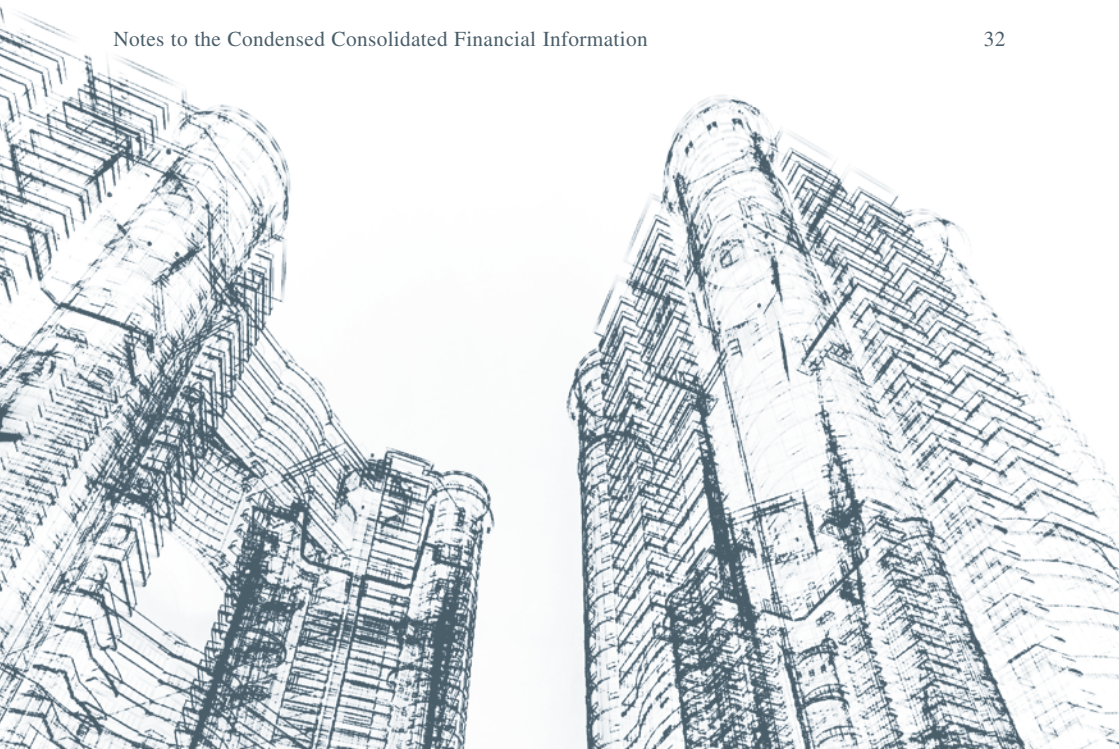
Incorporated in Bermuda With Limited Liability | Stock Code: 439



KUANGCHI 光啟科學

CONTENTS

Corporate Information	2
Management Discussion and Analysis	4
Directors' and Chief Executives' Interests in Shares	17
Substantial Shareholders' Interests in Shares	20
Corporate Governance and Other Information	23
Condensed Consolidated Statement of Profit or Loss	25
Condensed Consolidated Statement of Comprehensive Income	26
Condensed Consolidated Statement of Financial Position	27
Condensed Consolidated Statement of Changes in Equity	29
Condensed Consolidated Statement of Cash Flows	31
Notes to the Condensed Consolidated Financial Information	32



2 CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Liu Ruopeng (*Chairman*)
Dr. Zhang Yangyang
(*Co-Chief Executive Officer*)
Dr. Luan Lin (*Co-Chief Executive Officer & Chief Technology Officer*)
Mr. Dorian Barak

Non-executive Directors

Mr. Ko Chun Shun, Johnson
Mr. Song Dawei (*Resigned on 1 August 2018*)

Independent Non-executive Directors

Dr. Liu Jun
Dr. Wong Kai Kit
Ms. Cao Xinyi

AUDIT COMMITTEE

Ms. Cao Xinyi (*Chairman*)
Dr. Liu Jun
Dr. Wong Kai Kit

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Cheng Chi Chung Kevin
(*Appointed on 1 March 2018*)
Mr. Law Wing Hee (*Resigned on 1 March 2018*)

AUDITOR

PricewaterhouseCoopers

REGISTERED OFFICE

Clarendon House
2 Church Street, Hamilton HM11
Bermuda

HEAD OFFICE IN HONG KONG

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

HEAD OFFICE IN SHENZHEN

2/F, Software Building
No. 9 Gaoxin Zhong 1 st Road
Nanshan District, Shenzhen
Guangdong Province, PRC
Postal code: 518057

Email: info@kuang-chi.com
Website: www.kuangchiscience.com

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

REGISTRARS

Hong Kong

Tricor Secretaries Limited
Level 22, 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

4 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”).

Net loss for the six months ended 30 June 2018 (the “Period”) was HK\$181,524,000 (30 June 2017: net profit of HK\$349,623,000). Basic losses per share for the Period was 2.65 HK cents (30 June 2017: basic earnings per share was 7.38 HK cents). The major reason for the decrease in the net profit was that 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 (the “Comparative Period”), whereas there was no such gains for the Period.

During the Period, the Company and its subsidiaries recorded turnover of HK\$91,070,000 (30 June 2017: HK\$190,735,000), which decreased by 52.25% compared to the period ended 30 June 2017. The reasons for the drop in both revenue and gross profit margin for the Period as compared to the same period for 2017 are as follows:

- (a) The revenue for the Period consists of revenue generated from the sale of “Cloud” and electronic components as to approximately 17% and 83% respectively while the revenue for the period ended 30 June 2017 mainly consists of sale of “Cloud”.
- (b) Market demand for “Cloud”, being a high profit margin business of the Company and its subsidiaries, has approached saturation. No new contract for “Cloud” was signed in the Period but remaining unrecognised revenue of a contract signed during the year ended 31 December 2017 was recognised as revenue generated from the sale of “Cloud” in the Period; compared to one new contract for the sale of “Cloud” was signed in the Comparative Period and revenue from sale of “Cloud” for the Comparative Period was generated from two contracts.
- (c) Each sale contract of “Cloud” includes after-sales services. Therefore, there are ongoing maintenance services for sales which are recognised as revenue over periods and the costs of which (e.g. costs for parts and components and other overhead for maintenance) are recognised as “cost of sales” in the period when they are performed. During the Period, the costs of after-sales services were high, which contributed to a decrease in the gross profit margin of “Cloud”.
- (d) As stated above, the revenue for the Period was mainly attributable to trading of electronic components and the profit margin of which was comparably low (i.e. around 5%).

The Board was aware that market demand for “Cloud”, being a high profit margin business of the Company and its subsidiaries, may be approaching saturation. As stated above, no new contract for “Cloud” was signed in the Period, as compared to one new contract was signed in the Comparative Period. The revenue generated from the sale of “Cloud” in the Period represents the remaining unrecognised revenue of a contract signed during the year ended 31 December 2017.

In view of the above and given significant research and development progress and business development were made in 2017 in Future Artificial Intelligence (“Future AI”), the Board has decided to focus on its business plan to develop and diversify products relating to Future AI and the prospects of securing contracts for Future AI products within the first half of 2018 with a view to compensating the “Cloud” products. The Company has started to develop its Future AI as disclosed in its 2016 interim report and subsequent financial reports.

Therefore, the Company had devoted efforts to secure contracts for Future AI products in the Period. Nevertheless, it would need to take longer time as originally expected to conclude those contracts especially where the counterparties of the contracts are PRC government bodies.

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 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 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 Tracking 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 Tracking 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 Tracking 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 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.



6 MANAGEMENT DISCUSSION AND ANALYSIS

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. “Super Intelligent Engine” instant-access intelligence, possesses 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 Tracking 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 Tracking 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.

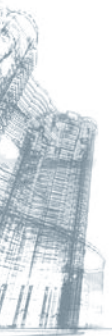
During the Period, the connection of the System with units of public security, political and legal system in various provinces and cities was activated, and discussion on cooperation in markets including Chongqing and Hebei was conducted to promote the practical application of the System in the area 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., an indirectly 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 Tracking 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., an indirectly 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 Tracking 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 Tracking 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 been 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

With regard to staff development, 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).

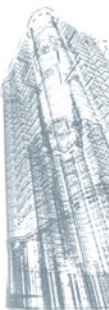
CAPITAL STRUCTURE

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

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

USE OF PROCEEDS

The total proceeds from the fund raising activities, including the subscriptions completed on 22 August 2014 and 29 September 2014, respectively, during the nine months period ended 31 December 2014 were approximately HK\$1,888,401,000. During the years ended 31 December 2017, 2016 and 2015, approximately HK\$168,628,000, HK\$217,728,000 and HK\$625,117,000 were utilised according to the intended use as specified in the annual report of year 2014. As at 31 December 2017, approximately HK\$614,115,000 was unutilised.



10 MANAGEMENT DISCUSSION AND ANALYSIS

Below is an analysis for the use of proceeds from the previous fund raising activities during the Period:

Intended use of proceeds	Unutilised proceeds as at 1 January 2018 HK\$'000	Utilised during the Period HK\$'000	Unutilised proceeds as at 30 June 2018 HK\$'000
Acquisition of land site and construction of manufacturing facilities and expansion of production capacity for the Future Technology Business	614,115	(26,839)	587,276
Research and development for products and expenses for the in-depth space business	—	—	—
General working capital	—	—	—
Global merger and acquisition of Future Technology Business and products	—	—	—
	614,115	(26,839)	587,276

During the Period, the Company and its subsidiaries paid approximately HK\$26,839,000 to purchase additional plant and equipment for the Future Technology Business. The unused proceeds up to 30 June 2018 were approximately HK\$587,276,000. The management will use the remaining proceeds as intended.

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).

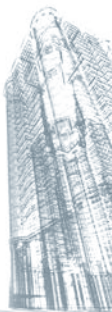
As at 30 June 2018, the Company and its subsidiaries had cash and cash equivalents of approximately HK\$730,058,000 (31 December 2017: HK\$787,477,000), and the Company and its subsidiaries had no time deposit (31 December 2017: HK\$180,120,000). The gearing ratio as of 30 June 2018, defined as the percentage 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 those 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 USD1,500,000 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.



12 MANAGEMENT DISCUSSION AND ANALYSIS

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 Company and its subsidiaries 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 25 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.

CHARGES ON THE COMPANY AND ITS SUBSIDIARIES' ASSETS

As at 30 June 2018, certain assets of the Company and its subsidiaries were pledged to secured banking facilities granted to the Company and its subsidiaries as follows:

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Available-for-sale financial assets – Shares in Kuang-Chi Technologies Co., Ltd. (“KCT”)	–	1,420,811
Financial assets at fair value through other comprehensive income – Shares in KCT	992,977	–
Prepaid land lease payments	87,584	89,900
	1,080,561	1,510,711

As at 30 June 2018, the Company and its subsidiaries had no significant contingent liabilities (31 December 2017: Nil).

CAPITAL COMMITMENTS

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities:		
Property, plant and equipment	201,643	209,483
Financial commitments on an investment (Note 23 to the condensed consolidated financial information)	137,873	140,400

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Company and its subsidiaries had approximately 534 employees. The Company and its subsidiaries provide competitive remuneration packages to employees with the share option scheme and the restricted shares award scheme. The Company and its subsidiaries also provide attractive discretionary bonus payable to those with outstanding performance and contribution to the Company and its subsidiaries.

SHARE OPTION SCHEMES AND RESTRICTED SHARE AWARD SCHEME

Share Option Scheme of the Company

The Company maintains a share option scheme of the Company (“Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Company and its subsidiaries. Detailed terms of the Share Option Scheme were disclosed in the 2017 Annual Report.

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

Category of participant	Date of Grant	Exercise price HK\$	Exercisable period ⁽¹⁾	Outstanding as at 1 January 2018	Granted during the Period	Exercised during the Period	Outstanding as at 30 June 2018
Directors							
Dr. Zhang Yangyang	30.9.2015	1.604	30.9.2015-29.9.2019 ⁽³⁾	8,000,000	-	-	8,000,000
Dr. Luan Lin	30.9.2015	1.604	30.9.2015-29.9.2019 ⁽³⁾	7,900,000	-	-	7,900,000
Mr. Dorian Barak	30.9.2016	1.604	30.9.2016-29.9.2019 ⁽³⁾	1,000,000	-	-	1,000,000
Sub-total				16,900,000			16,900,000
Employees							
Other employees	30.9.2015	1.604	30.9.2015-29.9.2019 ⁽³⁾	53,100,000	-	-	53,100,000
Total				70,000,000	-	-	70,000,000

- (1) Vesting of the share options is conditional upon the achievement of certain performance targets as set out in the 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.

Restricted Share Award Scheme

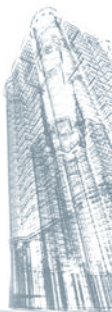
The Company maintains a restricted share award scheme (the “RSA Scheme”) to recognize and motivate the contribution of the participants and to provide them with a direct economic interest in attaining the long-term business objectives of the Company. Detailed terms of the RSA Scheme were disclosed in the 2017 Annual Report.

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

Share Option Schemes in MACL

On 23 February 2015, the Company and its subsidiaries have completed the acquisition of MACL. As at 23 February 2015, MACL has granted in aggregate 9,206,670 outstanding share options under the company option scheme of MACL and the new company option scheme of MACL as approved by the board of directors of MACL in 2008 and 2014 respectively (the “MACL Option Schemes”).

The purpose of the MACL Option Schemes is to enable key contributors to the potential success of MACL to share in that success by issuing them an option to purchase ordinary shares in MACL at an agreed price. Detailed terms of the MACL Option Schemes were disclosed in the 2015 Interim Report.



16 MANAGEMENT DISCUSSION AND ANALYSIS

Movement of options granted under the MACL Option Schemes is as follows:

	Original date of grant	Exercise price NZD	Exercisable period	Number of options		
				Outstanding as at 1 January 2018	Cancelled during the Period	Outstanding as at 30 June 2018
MACL Option Schemes						
Directors and employees of MACL	1 April 2013	0.24	April 2014 – April 2018	1,000,000	(1,000,000)	-
	1 April 2013	0.24	April 2015 – April 2018	1,000,000	(1,000,000)	-
	1 April 2013	0.24	April 2016 – April 2018	1,000,000	(1,000,000)	-
	1 November 2014	0.43	September 2014 – September 2019	266,667	(266,667)	-
	1 November 2014	0.43	September 2015 – September 2019	266,666	(266,666)	-
	1 November 2014	0.43	September 2016 – September 2019	266,667	(266,667)	-
				3,800,000	(3,800,000)	-
Exercisable				3,800,000		-
Weighted average exercise price (NZD)				0.2800		N/A

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2018, 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 pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

Name of Director/ Chief executive	Number of Shares held		Number of underlying Shares held		Approximate percentage of total issued Shares
	Personal interest	Corporate interests	Personal interest	Total	
Dr. Liu Ruopeng ("Dr. Liu")	-	3,078,000,000 (L) (note 2)	-	3,078,000,000 (L)	49.99%
		1,836,634,404 (S) (note 3)	-	1,836,634,404 (S)	29.83%
Mr. Ko Chun Shun, Johnson ("Mr. Ko")	-	56,000,000 (L) (note 4)	-	56,000,000 (L)	0.91%
Dr. Zhang Yangyang ("Dr. Zhang")	-	-	8,000,000 (L) (note 5)	8,000,000 (L)	0.13%
Dr. Luan Lin ("Dr. Luan")	-	-	7,900,000 (L) (note 6)	7,900,000 (L)	0.13%
Dr. Liu Jun	80,000 (L)	-	-	80,000 (L)	0.001%
Mr. Dorian Barak ("Mr. Barak")	-	-	1,000,000 (L) (note 7)	1,000,000 (L)	0.016%

18 DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

Notes:

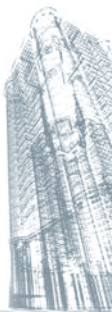
1. "L" represents long position in Shares/underlying Shares and "S" represents short position in Shares.
2. This represents the interests in 3,078,000,000 shares of the Company held by New Horizon Wireless Technology Limited ("New Horizon"), being a wholly-owned subsidiary of Wireless Connection Innovative Technology Limited which is owned as to 51% by Shenzhen Kuang-Chi Innovative Technology Limited and as to 49% by Shenzhen Kuang-Chi Hezhong Technology Limited. Shenzhen 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 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. Accordingly, Dr. Liu is deemed to be interested in the same number of shares of the Company held by New Horizon.
3. This represents:
 - a. the share charge given by New Horizon in favour of Bohai International Trust Co., Ltd. over 1,000,000,000 Shares owned by New Horizon.
 - b. the share charge given by New Horizon in favour of Everbright Fortune over 836,634,404 Shares owned by New Horizon.
4. This represents the interests in 56,000,000 Shares held by Starbliss Holdings Limited ("Starbliss"). Starbliss is ultimately wholly owned by Mr. Ko.
5. This represents interests in the share options of the Company held by Dr. Zhang.
6. This represents interests in the share options of the Company held by Dr. Luan.
7. This represents interests in the share options of the Company held by Mr. Barak. Mr. Barak was interested in an aggregate of 100,378 warrants of SkyX Limited, a subsidiary of the Company, which entitling the holder to subscribe for 100,378 shares (equivalent to approximately 3.33% of the fully diluted shareholding).
8. As of 30 June 2018, the issued shares of the company were 6,156,928,860.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

19

9. On 6 July 2018, Dr. Liu through an indirectly controlled company – Sky Asia Holdings Limited, acquired an aggregate of 500,000 ordinary shares of the Company in the open market at an average price of approximately HK\$0.56 per share (“Acquisition”). After the Acquisition, Dr. Liu was interested in 3,078,500,000 Shares, representing approximately 50.00% of the total issued share capital of the Company.

Save as disclosed above, as at 30 June 2018, 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.



20 SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2018, 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 Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

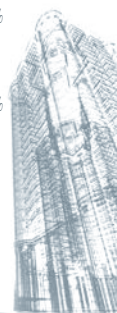
Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate percentage of total issued Shares
Ms. Huang Weizi ("Ms. Huang")	Interest of spouse	3,078,000,000 (L) (note 2)	-	3,078,000,000 (L)	49.99%
		1,836,634,404 (S) (note 3)		1,836,634,404 (S)	29.83%
New Horizon	Beneficial owner	3,078,000,000 (L)	-	3,078,000,000 (L)	49.99%
		1,836,634,404 (S)		1,836,634,404 (S)	29.83%
Wireless Connection Innovative Technology Limited	Interest of controlled corporation	3,078,000,000 (L)	-	3,078,000,000 (L)	49.99%
		1,836,634,404 (S)		1,836,634,404 (S)	29.83%
深圳大鵬光啟科技有限公司 (*Shenzhen Dapeng Kuang-Chi Technology Limited)	Interest of controlled corporation	3,078,000,000 (L)	-	3,078,000,000 (L)	49.99%
		1,836,634,404 (S)		1,836,634,404 (S)	29.83%
深圳大鵬光啟聯眾科技合夥企業 (有限合夥) (*Shenzhen Dapeng Kuang-Chi Lianzhong Technology Limited (Liability Partnership))	Interest of controlled corporation	3,078,000,000 (L)	-	3,078,000,000 (L)	49.99%
		1,836,634,404 (S)		1,836,634,404 (S)	29.83%
深圳光啟合眾科技有限公司 (*Shenzhen Kuang-Chi Hezhong Technology Limited)	Interest of controlled corporation	3,078,000,000 (L)	-	3,078,000,000 (L)	49.99%
		1,836,634,404 (S)		1,836,634,404 (S)	29.83%
深圳光啟創新技術有限公司 (*Shenzhen Kuang-Chi Innovative Technology Limited)	Interest of controlled corporation	3,078,000,000 (L)	-	3,078,000,000 (L)	49.99%
		1,836,634,404 (S)		1,836,634,404 (S)	29.83%

* For identification purpose only

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate percentage of total issued Shares
Central Faith International Ltd.	Beneficial owner and Interest of controlled corporation	972,981,013 (L)	-	972,981,013 (L)	15.80%
World Treasure Global Limited (note 4)	Beneficial owner	618,981,013 (L)	-	618,981,013 (L)	10.05%
上海光大富尊環璣投資中心(有限合伙) (*Shanghai Everbright Fortune Jinghui Investment Center (Limited Liability Partnership)) (note 5)	Person having a security interest in Shares	736,573,185 (L)	-	736,573,185 (L)	11.96%
光大富尊泰鋒投資管理(上海)有限公司 (*Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd) (note 6)	Interest of controlled corporation	736,573,185 (L)	-	736,573,185 (L)	11.96%
光大富尊投資有限公司 (*Everbright Fortune Investment Co., Ltd) (note 7)	Interest of controlled corporation	736,573,185 (L)	-	736,573,185 (L)	11.96%
光大証券股份有限公司 (*Everbright Securities Company Limited)	Interest of controlled corporation	736,573,185 (L)	-	736,573,185 (L)	11.96%
Ye Cheng	Interest of controlled corporation	484,041,988 (L)	-	484,041,988 (L)	7.86%
Cutting Edge Global Limited (note 8)	Beneficial owner	343,388,877 (L)	-	343,388,877 (L)	5.58%

* 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. Ms. Huang Weizi, being the spouse of Dr. Liu, is deemed to be interested in the same number of Shares held by New Horizon.
3. This represents:-
 - a. the share charge given by New Horizon in favour of Bohai International Trust Co., Ltd. over 1,000,000,000 Shares owned by New Horizon.
 - b. the share charge given by New Horizon in favour of Everbright Fortune over 836,634,404 Shares owned by New Horizon.
4. World Treasure Global Limited is a wholly owned subsidiary of Central Faith International Ltd.
5. 50% of equity interest of Shanghai Everbright Fortune Jinghui Investment Center (Limited Liability Partnership) is held by Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd.
6. 85% of equity interest of Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd is held by Everbright Fortune Investment Co., Ltd.
7. 100% of equity interest of Everbright Fortune Investment Co., Ltd. is held by Everbright Securities Company Limited.
8. Cutting Edge Global Limited is wholly owned by Mr. Ye Cheng.
9. As of 30 June 2018, the issued shares of the company were 6,156,928,860.
10. On 6 July 2018, Dr. Liu through a company indirectly controlled – Sky Asia Holdings Limited acquired an aggregate of 500,000 ordinary shares of the Company in the open market at an average price of approximately HK\$0.56 per Share (“Acquisition”). After the Acquisition, Dr. Liu was interested in 3,078,500,000 Shares, representing approximately 50.00% of the total issued share capital of the Company. Ms. Huang is deemed to be interested in Dr. Liu’s shares because of the spousal relationship between Ms. Huang and Dr. Liu.

Save as disclosed above, as at 30 June 2018, the Company was not aware of any other person (other than the director or chief executive 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 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

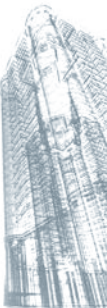
The Company has adopted the Model Code for Securities Transactions by Board of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the directors. All directors have confirmed, following specific enquiry procedures 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.

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 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 Company and its subsidiaries, the risk management and internal control systems, and the financial reporting matters.

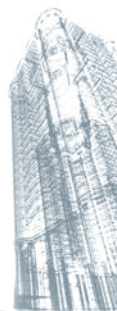
On behalf of the Board
KuangChi Science Limited
Dr. Liu Ruopeng
Chairman and Executive Director

Hong Kong, 22 August 2018

**CONDENSED CONSOLIDATED STATEMENT OF
PROFIT OR LOSS**
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Notes	Six months ended 30 June	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue	7	91,070	190,735
Cost of sales		(84,759)	(77,956)
Gross profit		6,311	112,779
Other income	8	2,089	68,631
Other (losses)/gains, net	9	(715)	609,349
Provision for impairment of goodwill	15	–	(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	11	(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

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



26 **CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Notes	Six months ended 30 June	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
(Loss)/profit for the period		(181,524)	349,623
(Losses)/earnings per share for the period attributable to owners of the Company			
Basic (HK cents per share)	13	(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

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 2018

27

	Notes	30 June 2018 HK\$'000 (unaudited)	31 December 2017 HK\$'000 (audited) (Note)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	14	244,839	228,409
Intangible assets and goodwill	15	14,945	15,438
Investment in associates		29,992	27,582
Financial assets at fair value through other comprehensive income	16	1,082,113	–
Available-for-sale financial assets	4	–	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	17	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	17	431,488	401,141
Loan receivables	18	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	19	61,569	61,569
Other reserves	20	1,786,044	2,159,252
Retained earnings		74,777	237,644
Non-controlling interests		1,922,390	2,458,465
		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.



28 **CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION**
AT 30 JUNE 2018

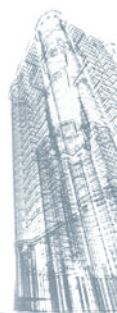
	Notes	30 June 2018 HK\$'000 (unaudited)	31 December 2017 HK\$'000 (audited) (Note)
LIABILITIES			
NON-CURRENT LIABILITIES			
Bank and other borrowing	21	356,292	360,955
Deferred income tax liabilities		95,599	159,086
Total non-current liabilities		451,891	520,041
CURRENT LIABILITIES			
Trade and other payables	22	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	21	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.

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 2018

	Share capital HK\$'000 (Note 19)	Other reserves HK\$'000 (Note 20)	Retained earnings HK\$'000	Subtotal HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2018	61,569	2,159,252	237,644	2,458,465	75,584	2,534,049
Loss for the period	-	-	(162,867)	(162,867)	(18,657)	(181,524)
Other comprehensive (loss)/income for the period:						
Currency translation differences	-	(5,537)	-	(5,537)	280	(5,257)
Changes in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	-	(369,352)	-	(369,352)	-	(369,352)
Total comprehensive loss for the period	-	(374,889)	(162,867)	(537,756)	(18,377)	(556,133)
Change in shareholding in existing subsidiaries without changing control upon exercise of underlying options	-	(766)	-	(766)	766	-
Share-based compensation	-	2,447	-	2,447	(36)	2,411
At 30 June 2018 (unaudited)	61,569	1,786,044	74,777	1,922,390	57,937	1,980,327



30 **CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Share capital HK\$'000 (Note 19)	Other reserves HK\$'000 (Note 20)	Retained earnings HK\$'000	Subtotal HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2017	60,894	2,228,448	171,593	2,460,935	268,776	2,729,711
Profit/(loss) for the period	-	-	445,643	445,643	(96,020)	349,623
Other comprehensive (loss)/income for the period:						
Currency translation differences	-	49,342	(750)	48,592	28	48,620
Changes in fair value of available-for-sale financial assets, net of deferred tax	-	(235,730)	-	(235,730)	-	(235,730)
Total comprehensive (loss)/income for the period	-	(186,388)	444,893	258,505	(95,992)	162,513
Exercise of share option	205	32,751	-	32,956	-	32,956
Change in shareholding in existing subsidiaries without changing control upon exercise of underlying options	-	(217)	-	(217)	217	-
Share-based compensation	-	14,497	-	14,497	2,314	16,811
Deemed disposal of a subsidiary	-	24,201	-	24,201	(64,949)	(40,748)
At 30 June 2017 (unaudited)	61,099	2,113,292	616,486	2,790,877	110,366	2,901,243

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 2018

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
CASH FLOW FROM OPERATING ACTIVITIES		
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(252,179)	32,406
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(45,893)	(30,849)
Purchase of intangible assets	–	(34,635)
Interest received	2,211	5,788
Proceeds from time deposits	958,645	252,005
Increase in time deposits	(774,415)	(195,378)
Receipt of loan receivables	4,361	273,844
Withdrawal of structured bank deposit	–	13,397
Net cash inflow from disposal of a subsidiary	–	9,101
Investment in available-for-sale financial assets	–	(434,373)
Dividend received	568	–
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	145,477	(141,100)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from bank borrowings	55,135	345,000
Proceeds from issue of shares under share option scheme	–	32,956
NET CASH GENERATED FROM FINANCING ACTIVITIES	55,135	377,956
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(51,567)	269,262
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	787,477	870,558
Effect of foreign exchange rate changes	(5,852)	15,108
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	730,058	1,154,928

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



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 below. 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)-Int 23	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 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.

3 ACCOUNTING POLICIES (Continued)

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

HKFRS 16 Leases (Continued)

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.

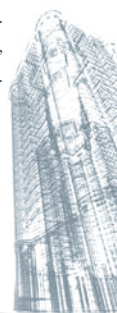
4 CHANGES IN ACCOUNTING POLICIES

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.



36 4 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Impact on the consolidated financial statements (Continued)

	31 December 2017 HK\$'000	Impact on application of HKFRS 9 HK\$'000	Impact on application of HKFRS 15 HK\$'000	1 January 2018 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.

4 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 Financial Instruments – Impact of adoption (Continued)

(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 HK\$'000	Financial assets at fair value through other comprehensive income 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

38 4 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) **HKFRS 9 Financial Instruments – Impact of adoption** (Continued)

(i) *Classification and measurement (Continued)*

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”) HK\$’000	Effect on financial assets at fair value through other comprehensive income reserve (“FVOCI reserve”) 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 the AFS reserve to FVOCI reserve on 1 January 2018.

4 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 Financial Instruments – Impact of adoption (Continued)

(i) Classification and measurement (Continued)

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.

(b) **HKFRS 9 Financial Instruments – Impact of adoption** (Continued)

(ii) *Impairment of financial assets (Continued)*

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 the 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.

4 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 Financial Instruments – Impact of adoption (Continued)

(ii) *Impairment of financial assets (Continued)*

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.

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

(i) *Investments and other financial assets classification (Continued)*

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.

4 CHANGES IN ACCOUNTING POLICIES (Continued)

(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.

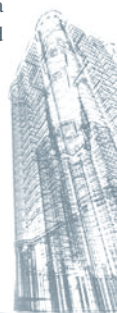
In summary, the following adjustments were made to the amounts recognised in the consolidated statement of financial position as at date of initial application (1 January 2018):

	HKAS 18 carrying amount 31 December 2017 HK\$'000	Reclassification HK\$'000	HKFRS 15 carrying amount 1 January 2018 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”*

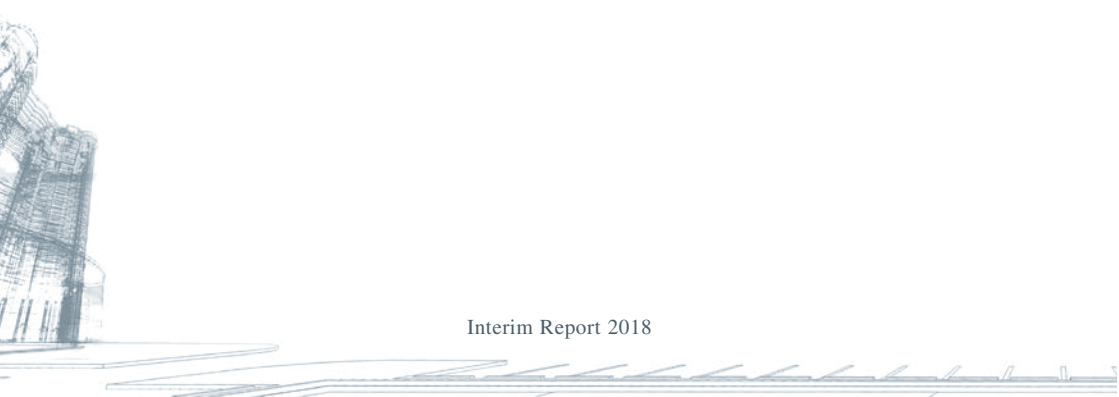
Services of “Cloud” represent maintenance services in relation to future technology business. Revenue from the maintenance services is recognised over time as maintenance services are transferred over time, and customers simultaneously receive and consume the benefits from maintenance service provided 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 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

6.1 Financial risk factors

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

The condensed consolidated financial information do 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 Company and its subsidiaries as at 31 December 2017.

There have been no changes in the risk management policies since year end.

6.2 Liquidity risk

Compared to the position as at 31 December 2017, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

46 6 **FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** (Continued)

6.3 Fair value estimation

(a) *Fair value hierarchy*

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

The following table presents the financial assets and financial liabilities of the Company and its subsidiaries which are measured and recognised at fair value at 30 June 2018 and 31 December 2017 on a recurring basis:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 30 June 2018				
Financial assets				
Financial assets at fair value through other comprehensive income				
– Listed equity security	992,977	–	–	992,977
– Unlisted equity securities	–	–	89,136	89,136
At 31 December 2017				
Financial assets				
Available-for-sale financial assets				
– Listed equity security	–	1,420,811	–	1,420,811
– Unlisted equity securities	–	–	97,761	97,761

6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

6.3 Fair value estimation (Continued)

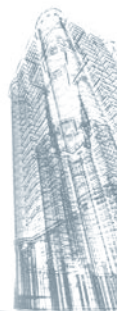
(a) Fair value hierarchy (Continued)

On 3 January 2018, shares of Kuang-Chi Technologies Co., Ltd. (“KCT”) resumed trading on Shenzhen Stock Exchange. As the fair value of this investment can be determined based on quoted market prices as at 30 June 2018, it was reclassified from level 2 into level 1 during the period ended 30 June 2018.

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

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 trading and available-for-sale 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 Company and its subsidiaries are 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.



FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

6.3 Fair value estimation (Continued)

(b) Valuation techniques used to determine fair values

Financial instruments	Fair value as at 30 June 2018 HK\$'000	Fair value hierarchy	Valuation techniques inputs	Significant unobservable inputs
				30 June 2018
(1) Investment in Gilo Industries Group Ltd. ("Gilo") classified as financial assets at fair value through other comprehensive income in the condensed consolidated statement of financial position	89,136	Level 3	Discounted cash flow model is adopted and the key inputs are revenue growth rate, perpetual growth rate and post-tax discount rate	<ul style="list-style-type: none"> • Average revenue growth rate ranging from 3% to 350% • Perpetual growth rate of 3% • Post-tax discount rate of 20%

(c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the period ended 30 June 2018:

	Equity securities HK\$'000
Opening balance at 1 January 2018	97,761
Fair value changes recognised in other comprehensive income	(8,548)
Currency translation differences	(77)
Closing balance at 30 June 2018	89,136

(i) Transfers between levels 2 and 3 and changes in valuation techniques

Other than the transfer of the equity security from level 2 to level 1 explained in note 6.3(a) above, there was no other transfer between the levels of the fair value hierarchy during the six months ended 30 June 2018. Also, there was no change made to any of the valuation techniques applied for the six months ended 30 June 2018.

(ii) Valuation processes

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

7 SEGMENT INFORMATION

The financial information provided to the chief operating decision-maker (“CODM”) does not contain profit or loss information of each product line or each market segment and the CODM review the operating results of the 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 – the PRC, Hong Kong, New Zealand and Canada.

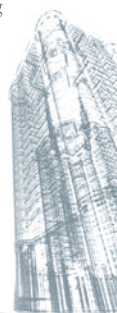
Information about the revenue from operations of the Company and its subsidiaries from external customers is presented based on the location of the goods delivered. Information about the non-current assets of the Company and its subsidiaries is presented based in the geographical locations of the assets.

	Revenue from external customers		Non-current assets*	
	Six months ended 30 June		30 June	31 December
	2018	2017	2018	2017
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (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.



50 8 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Dividend income from the investment in KCT	568	–
Government grants	856	68,004
Sundry income	665	627
	2,089	68,631

9 OTHER (LOSSES)/GAINS, NET

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
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

10 OPERATING (LOSS)/PROFIT

Operating (loss)/profit has been arrived at after charging:

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Advertising expenses	2,963	4,318
Amortisation of intangible assets	555	4,221
Cost of inventories sold	84,646	77,956
Depreciation of plant and equipment	7,759	5,486
Directors' emoluments	2,982	2,916
Operating lease expenses for office premises and warehouses	14,774	6,514
Salaries, wages and other benefits	90,082	54,208
Share-based payments	2,447	14,288

11 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
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

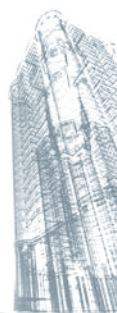
Notes:

- (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%).

12 DIVIDEND

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



52 13 (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:

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

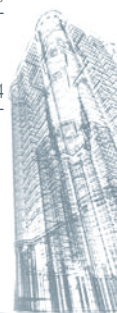
Number of shares (in thousands)	Unaudited Six months ended 30 June	
	2018	2017
Weighted average number of ordinary shares for the purpose of basic (losses)/earnings per share	6,156,929	6,038,863
Effect of dilutive potential ordinary shares:		
– Share options of the Company	–	8,027
Weighted average number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

	Unaudited Six months ended 30 June	
	2018	2017
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.

14 PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Furniture and fixture	Office equipment	Leasehold improvement	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST							
At 1 January 2017	47,715	561	10,133	7,079	5,846	90,739	162,073
Additions	4,546	17	8,823	5,439	634	125,189	144,648
Transferred to plant and machinery	33,679	-	-	-	-	(33,679)	-
Disposals	(118)	-	(356)	(405)	(606)	-	(1,485)
Disposal through deemed disposal of a subsidiary	(24,067)	-	(1,662)	(440)	-	-	(26,169)
Currency translation differences	3,771	39	675	453	354	9,184	14,476
At 31 December 2017 and 1 January 2018	65,526	617	17,613	12,126	6,228	191,433	293,543
Additions	219	-	1,745	-	-	26,839	28,803
Disposals	-	(95)	-	(3,306)	-	-	(3,401)
Currency translation differences	(736)	(4)	(552)	(138)	(95)	(3,419)	(4,944)
At 30 June 2018	65,009	518	18,806	8,682	6,133	214,853	314,001
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2017	4,757	242	3,864	1,850	1,925	-	12,638
Depreciation	40,452	178	6,195	3,137	1,130	-	51,092
Disposals	(72)	-	-	-	(28)	-	(100)
Disposal through deemed disposal of a subsidiary	(1,146)	-	(310)	(440)	-	-	(1,896)
Provision for impairment	1,230	-	-	-	-	-	1,230
Currency translation differences	1,687	21	238	81	143	-	2,170
At 31 December 2017 and 1 January 2018	46,908	441	9,987	4,628	3,170	-	65,134



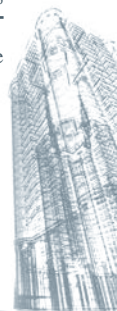
54 14 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Plant and machinery HK\$'000	Furniture and fixture HK\$'000	Office equipment HK\$'000	Leasehold improvement HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At 31 December 2017 and 1 January 2018	46,908	441	9,987	4,628	3,170	-	65,134
Depreciation	2,946	61	2,862	1,458	432	-	7,759
Disposals	-	(50)	-	(2,737)	-	-	(2,787)
Currency translation differences	(375)	(5)	(422)	(84)	(58)	-	(944)
At 30 June 2018	49,479	447	12,427	3,265	3,544	-	69,162
CARRYING VALUES							
At 30 June 2018	15,530	71	6,379	5,417	2,589	214,853	244,839
At 31 December 2017	18,618	176	7,626	7,498	3,058	191,433	228,409

15 INTANGIBLE ASSETS AND GOODWILL

	Goodwill HK\$'000	Capitalised development cost HK\$'000	Software HK\$'000	Technical knowhow and patents HK\$'000	Total HK\$'000
COST					
At 1 January 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”).



56 15 INTANGIBLE ASSETS AND GOODWILL (Continued)

The carrying amount of goodwill (net of accumulated impairment losses) and technical knowhow and patents as at 30 June 2018 and 31 December 2017 were allocated to SkyX unmanned aircraft business (“SkyX CGU”) as follows:

	Goodwill		Technical knowhow and patents	
	30 June 2018 HK\$'000 (unaudited)	31 December 2017 HK\$'000 (audited)	30 June 2018 HK\$'000 (unaudited)	31 December 2017 HK\$'000 (audited)
SkyX unmanned aircrafts business	9,304	9,264	5,394	5,870

Goodwill and technical knowhow and patents related to the SkyX CGU were tested for impairment as at 31 December 2017 and there was no impairment indicator as at 30 June 2018. No impairment loss on SkyX related assets was recognised during the six months ended 30 June 2018.

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

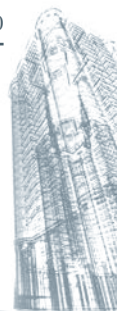
Note: As at 30 June 2018, the Company and its subsidiaries held 3.32% of the ordinary shares of KCT (31 December 2017: 3.32%), while Shenzhen Kuang-Chi Hezhong Technology Limited, which is partially owned by the directors of the Company, Dr. Liu Ruopeng, Dr. Zhang Yangyang and Dr. Luan Lin with shareholding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

17 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
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
Less: Provision for impairment of prepayment and doubtful receivables	462,643 (5,270)	419,338 (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:

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
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



58 17 TRADE AND OTHER RECEIVABLES (Continued)

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

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

18 LOAN RECEIVABLES

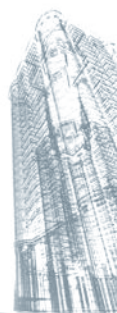
	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Current portion		
– Loan to a related party (Note a)	20,680	24,224
– Loan to a third party (Note b)	2,378	2,368
– Loan to an associate (Note c)	21,218	22,378
	44,276	48,970
Less: Provision for bad debt	(23,596)	(24,746)
	20,680	24,224

Notes:

- (a) The amount represented an advance to a potential investee, Zwipe AS. The loan is secured by the patents of the borrower, interest bearing at 8% per annum and repayable within 24 months from the date of inception. During the year ended 31 December 2017 and the period ended 30 June 2018, the loan balance was reclassified to short term portion as it will mature in 2018.

Both Dr. Liu Ruopeng (the controlling shareholder and executive director of the Company and its subsidiaries) and Ms. Huang Weizi (spouse of Dr. Liu Ruopeng) are directors of this borrower. In additions, Photon Future Limited, a company controlled by Dr. Liu Ruopeng, holds approximately 20% shares of the investee.

- (b) As at 30 June 2018, the balance represented a loan to Beyond Verbal Communications Ltd., which was unsecured, interest bearing at 6% per annum and matured on 31 March 2018. During the year ended 31 December 2017, the loan was fully impaired as the management considered the recoverability of the loans is remote.
- (c) As at 30 June 2018, the balance represented a loan to the associate of the Company and its subsidiary, Solar Ship Inc. The loan is secured by all present and future undertakings and personal properties of the associate. CAD2,500,000 (approximately HK\$14,942,000) of the loan is interest-free and CAD1,050,000 (approximately HK\$6,276,000) is interest-bearing at 10% per annum, both of which are repayable on demand. During the year ended 31 December 2017, the loan was fully impaired as the management considered the recoverability of the loans is remote.



60 19 SHARE CAPITAL

Ordinary shares	Number of shares	Equivalent to HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	7,316,666,668	73,167
Issued and fully paid:		
At 1 January 2017	6,089,401,125	60,894
Issue of ordinary shares upon exercise of share options	20,546,377	205
At 30 June 2017	6,109,947,502	61,099
At 1 January 2018 and 30 June 2018	6,156,928,860	61,569

20 OTHER RESERVES

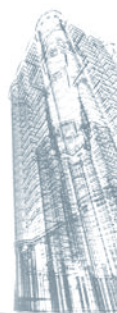
	Share premium HK\$'000	AFS reserve HK\$'000	FVOCI reserve HK\$'000	Capital reserve HK\$'000 (Note a)	Contributed surplus HK\$'000 (Note b)	Share-based payment reserve HK\$'000 (Note c)	Exchange translation reserve HK\$'000	Total HK\$'000
At 31 December 2017 as originally presented	2,339,550	(363,041)	-	17,683	103,941	38,479	22,640	2,159,252
Adoption of HKFRS 9	-	363,041	(363,041)	-	-	-	-	-
Restated other reserves as at 1 January 2018	2,339,550	-	(363,041)	17,683	103,941	38,479	22,640	2,159,252
Other comprehensive loss for the period:								
Currency translation differences	-	-	-	-	-	-	(5,537)	(5,537)
Change in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	-	-	(369,352)	-	-	-	-	(369,352)
Total comprehensive loss for the period	-	-	(369,352)	-	-	-	(5,537)	(374,889)
Change in shareholding in existing subsidiary without losing control upon exercise of underlying options	-	-	-	(766)	-	-	-	(766)
Share-based payment compensation	-	-	-	-	-	2,447	-	2,447
At 30 June 2018 (unaudited)	2,339,550	-	(732,393)	16,917	103,941	40,926	17,103	1,786,044

20 OTHER RESERVES (Continued)

	Share premium HK\$'000	AFS reserve HK\$'000	FVOCI 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 reserve HK\$'000	Total HK\$'000
At 1 January 2017 (audited)	2,096,146	-	-	(6,301)	103,941	141,056	(106,394)	2,228,448
Other comprehensive (loss)/income for the period:								
Currency translation differences	-	-	-	-	-	-	49,342	49,342
Change in fair value of available-for-sale financial assets, net of deferred tax	-	(235,730)	-	-	-	-	-	(235,730)
Total comprehensive (loss)/income for the period	-	(235,730)	-	-	-	-	49,342	(186,388)
Exercise of share option	43,723	-	-	-	-	(10,972)	-	32,751
Change in shareholding in existing subsidiary without losing control upon exercise of underlying options	-	-	-	(217)	-	-	-	(217)
Share-based payment compensation	-	-	-	-	-	14,497	-	14,497
Deemed disposal of a subsidiary	-	-	-	24,201	-	-	-	24,201
At 30 June 2017 (unaudited)	2,139,869	(235,730)	-	17,683	103,941	144,581	(57,052)	2,113,292

Notes:

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



62 21 BANK AND OTHER BORROWING

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Bank borrowing		
– Repayable within one year	88,090	35,238
Other borrowing		
– Repayable more than two years but not more than five years	356,292	360,955
Total bank and other borrowing	444,382	396,193

As at 30 June 2018, the bank borrowing carried interest of approximately 6.5% p.a. (31 December 2017: 6.7% p.a.) which was secured by the prepaid leased land, amounting to HK\$87,584,000 (31 December 2017: HK\$89,900,000) and was guaranteed by the Company and a company which is controlled by Dr. Liu Ruopeng.

As at 30 June 2018, the other borrowing carried interest at fixed interest rate of 6.5% p.a. (31 December 2017: 6.5% p.a.) which was secured by the KCT's shares held by the Company and its subsidiaries, amounting to HK\$992,977,000 (31 December 2017: HK\$1,420,811,000) and was guaranteed by the Company and a company which is controlled by Dr. Liu Ruopeng (31 December 2017: same).

As at 30 June 2018, the Company and its subsidiaries entitled to total available banking facilities amounting approximately HK\$770,575,000 (31 December 2017: HK\$780,520,000), HK\$326,982,000 (31 December 2017: HK\$385,107,000) of which were not utilised.

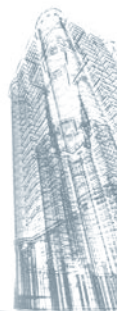
22 TRADE AND OTHER PAYABLES

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

Note: 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 ageing analysis of trade payables presented based on the invoice date at the end of each reporting period.

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Trade payables		
0 – 90 days	32,612	36,223
Over 90 days	19,668	12,438
	52,280	48,661



64 23 CAPITAL COMMITMENTS

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

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities:		
Property, Plant and equipment	201,643	209,483
Financial commitments on an investment (Note)	137,873	140,400

Note:

On 16 January 2017, the Company and its subsidiaries entered into an investment agreement with an investee. Pursuant to the agreement, the investment will be completed in three stages. The Company and its subsidiaries have completed the first stage during the year ended 31 December 2017, and such investment has been recognised as an unlisted available-for-sale financial asset, which was re-classified to financial assets at fair value through other comprehensive income on 1 January 2018 as described in Note 4. Upon the completion of certain milestones set out in the investment agreement, the Company and its subsidiaries will further subscribe for new and existing shares issued by the investee in the second and third stages. As at 30 June 2018, the committed capital injection of the second and third stages amounted to approximately HK\$137,873,000 (31 December 2017: HK\$140,400,000).

24 RELATED PARTY TRANSACTIONS

Apart from the balances and transactions disclosed elsewhere in the condensed consolidated financial information, there was no related party transaction during the periods ended 30 June 2017 and 2018.

25 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.