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KUANGCHI SCIENCE LIMITED

光啟科學有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)

**ANNOUNCEMENT OF INTERIM RESULTS FOR
THE SIX MONTHS ENDED 30 JUNE 2019**

The board of directors (the “**Board**”) of KuangChi Science Limited (the “**Company**”) announces the unaudited interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2019 (the “**Period**”) together with the comparative figures for the same period in 2018 (the “**Comparative Period**”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended 30 June	
	<i>Notes</i>	2019	2018
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Continuing Operations			
Revenue	6	35,252	91,070
Cost of sales		<u>(32,433)</u>	<u>(84,759)</u>
Gross profit		2,819	6,311
Other income	7	5,874	2,089
Other gains/(losses), net	8	333	(715)
Reversal of provision of allowance for expected credit loss on trade receivables		13,150	–
Provision for expected credit loss on contract assets		(2,115)	–
Selling and distribution expenses		(12,181)	(21,926)
Research and development expenses		(37,354)	(94,988)
Administrative expenses		(34,061)	<u>(69,225)</u>
Operating loss		(63,535)	(178,454)
Finance income		2,022	2,952
Finance costs		(13,281)	<u>(7,842)</u>
Finance costs, net		(11,259)	(4,890)
Share of results of associates		(12,471)	<u>2,163</u>
Loss before tax		(87,265)	(181,181)
Income tax expense	10	(975)	<u>(343)</u>
Loss from continuing operations		(88,240)	(181,524)
Loss from discontinued operation		(2,088)	<u>–</u>
Loss for the period		(90,328)	<u>(181,524)</u>

		Six months ended 30 June	
		2019	2018
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
(Loss)/profit for the period from continuing operations attributable to:			
Owners of the Company		(90,572)	(162,867)
Non-controlling interests		2,332	(18,657)
		<u>(88,240)</u>	<u>(181,524)</u>
Loss for the period from discontinued operations attributable to:			
Owners of the Company		(1,087)	–
Non-controlling interests		(1,001)	–
		<u>(2,088)</u>	<u>–</u>
(Loss)/profit for the period attributable to:			
Owners of the Company		(91,659)	(162,867)
Non-controlling interests		1,331	(18,657)
		<u>(90,328)</u>	<u>(181,524)</u>
Loss per share			
From continuing and discontinued operations			
Basic (HK cents per share)	<i>12</i>	(1.49)	(2.65)
Diluted (HK cents per share)	<i>12</i>	(1.49)	(2.65)
From continuing operations			
Basic (HK cents per share)	<i>12</i>	(1.47)	(2.65)
Diluted (HK cents per share)	<i>12</i>	<u>(1.47)</u>	<u>(2.65)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

		30 June 2019	31 December 2018
	<i>Notes</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		327,112	304,972
Right-of-use assets		139,126	–
Intangible assets		6,899	10,184
Investment in associates		48,865	61,346
Financial assets at fair value through other comprehensive income	13	792,877	837,246
Prepaid land lease payments		–	80,747
Long-term deposits and prepayments	14	2,193	21,436
 Total non-current assets		1,317,072	1,315,931
 CURRENT ASSETS			
Prepaid land lease payments		–	2,248
Inventories		4,179	4,000
Contract assets		37,830	14,598
Trade and other receivables	14	184,256	372,394
Loan receivables		–	9,731
Pledged bank deposits		196	310
Cash and cash equivalents		498,176	429,611
 Total current assets		724,637	832,892
 Total assets		2,041,709	2,148,823

		30 June	31 December
		2019	2018
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(audited)
EQUITY			
Share capital		61,569	61,569
Other reserves		1,516,016	1,549,961
Accumulated losses		(313,138)	(221,479)
		<hr/>	<hr/>
Equity attributable to owners of the Company		1,264,447	1,390,051
Non-controlling interests		41,541	41,864
		<hr/>	<hr/>
Total equity		1,305,988	1,431,915
		<hr/>	<hr/>
LIABILITIES			
NON-CURRENT LIABILITIES			
Bank and other borrowings		130,286	443,677
Lease liabilities		33,583	–
Deferred income tax liabilities		62,204	69,705
		<hr/>	<hr/>
Total non-current liabilities		226,073	513,382
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and other payables	<i>15</i>	94,167	141,139
Contract liabilities		4,040	4,043
Lease liabilities		2,534	–
Deferred government grants		30,725	22,430
Income tax payable		14,118	13,142
Bank and other borrowings		364,064	22,772
		<hr/>	<hr/>
Total current liabilities		509,648	203,526
		<hr/>	<hr/>
Total liabilities		735,721	716,908
		<hr/>	<hr/>
Total equity and liabilities		2,041,709	2,148,823
		<hr/>	<hr/>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

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

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

2 BASIS OF PREPARATION

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) New and amended standards adopted by the Group

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

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

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

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

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

Amendments to HKFRS 3	Definition of a Business ⁽¹⁾
Amendments to HKAS 1 and HKAS 8	Definition of material ⁽¹⁾
HKFRS 17	Insurance contracts ⁽²⁾
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 Group for annual period beginning on 1 January 2020.

⁽²⁾ Effective for the Group for annual period beginning on 1 January 2021.

⁽³⁾ Effective date to be determined.

4 CHANGES IN ACCOUNTING POLICIES

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

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

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

Lessee accounting

(a) Lease assets

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

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

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

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

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

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

(b) Lease liabilities

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

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

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

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

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

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

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

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

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

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

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

5 ESTIMATES

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

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

6 SEGMENT INFORMATION

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

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

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

(b) Geographical information

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

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

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

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

7 OTHER INCOME

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

8 OTHER GAINS/(LOSSES), NET

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

9 OPERATING LOSS

Operating loss has been arrived at after charging:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
From continuing operations		
Amortisation of intangible assets	2,565	555
Cost of inventories sold	32,433	84,646
Depreciation of plant and equipment (exclude right-of-use assets)	2,666	7,759
Depreciation of right-of-use assets	4,556	–
Directors' emoluments	2,269	2,982
Operating lease expenses for office premises and warehouses relating to short term leases	6,351	14,774
Reversal of provision of allowance for expected credit loss on trade receivable	(13,150)	–
Provision of allowance for expected credit loss on contract assets	2,115	–
Salaries, wages and other benefits	49,466	90,082
Share-based payments	<u>–</u>	<u>2,513</u>

10 INCOME TAX EXPENSE

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

Notes:

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

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

11 DIVIDEND

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

12 LOSS PER SHARE

From continuing operations

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

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

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

From continuing and discontinued operations

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

	Unaudited	
	Six months ended 30 June	
	2019	2018
Loss for the period attributable to owners of the Company	<u>(91,659)</u>	<u>(162,867)</u>

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

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

14 TRADE AND OTHER RECEIVABLES

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

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

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

15 TRADE AND OTHER PAYABLES

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW AND PROSPECTS

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

Impairment loss on trade receivables and contract assets

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

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

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

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

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

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

The Group puts their focus on the Future Technology Business. Currently, the Group is committed to building future smart cities by developing and integrating different future technologies, including the “AI overlay” technology and the “future space” technology. Such technologies 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.

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

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

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

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

During the Period, the Group insisted that actual combat is the guiding result. Through physical attendance at the scenes, the Group had optimized identification algorithms and strategies, and strengthened the cooperation with actual operational personnel of public security customers effectively assisted the police in solving many cases and incidents related to people’s livelihood. Let’s use finding the lost children as an illustrative example. On the evening of 25 June, a woman called the police crying that her five-year-old son was lost. It was an intensive peak area of people flow, and the time and place of incident could not be completely determined. Using cameras would be just like looking for a needle in a haystack. The police quickly adopted our “AI Overlay Network” and imported the woman’s image, and tracked the trajectory of the incident immediately. It quickly located the last image of the woman and her son, and identified the whereabouts of the child in only four minutes, and finally successfully assisted the woman in finding the lost child. The whole process only took 15 minutes, which demonstrated that our “AI Overlay Network” has unique ability and practical value in both identification and real-time tracking of the identified person. Good reputation will be accumulated through actual achievements, which will lay a solid foundation for the promotion of “AI Overlay Network” of the Company. Our “AI Overlay Network” is demonstrating its unique charm in Shanghai.

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

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

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

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

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

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

Manpower development

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

INTERIM DIVIDEND

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

CAPITAL STRUCTURE

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 June 2019, the Group had cash and cash equivalents of approximately HK\$498,176,000 (31 December 2018: HK\$429,611,000) and pledged bank deposits of approximately of HK\$196,000 (31 December 2018: HK\$310,000). The gearing ratio as of 30 June 2019, defined as the percentage of the total interest bearing debt, including bank and other borrowings of approximately HK\$494,350,000 (31 December 2018: HK\$466,449,000) to net asset value, was approximately 37.85% (31 December 2018: 32.58%).

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

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

The Group did not have any other significant investment and there are no other material acquisition or disposal of subsidiaries and associated company during the Period.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Practices

The Board acknowledges the importance of the highest standards of corporate governance as the Board believes effective corporate governance practices are fundamental to enhance the shareholders' value and safeguard 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 the deviations from the 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, and three independent non-executive directors Dr. Liu Jun, Dr. Wong Kai Kit and Ms. Cao Xinyi, did not attend the annual general meeting held on 24 June 2019, due to other business commitments. The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the directors. All directors have confirmed, followed by 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:

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

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

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

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.

INSUFFICIENT NUMBER OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

Review of Interim Results

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

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

Hong Kong, 26 August 2019

As at the date of this announcement, the Board comprises four executive Directors, namely Dr. Liu Ruopeng, Dr. Luan Lin, Dr. Zhang Yangyang and Mr. Dorian Barak; and two independent non-executive Directors, namely Dr. Liu Jun and Dr. Wong Kai Kit.