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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 2020**

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 2020 (the “**Period**”) together with the comparative figures for the same period in 2019 (the “**Comparative Period**”) as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2020**

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

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

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2020**

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	(unaudited)
<b>Loss for the period</b>	<b>(11,617)</b>	(90,328)
<b>Other comprehensive loss</b>		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<b>(9,036)</b>	1,670
<i>Items that will not be subsequently reclassified to profit or loss:</i>		
Changes in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	<u><b>(126,972)</b></u>	<u>(37,269)</u>
Other comprehensive loss, net of tax	<u><b>(136,008)</b></u>	<u>(35,599)</u>
<b>Total comprehensive loss for the period</b>	<u><b>(147,625)</b></u>	<u>(125,927)</u>
Total comprehensive loss for the period attributable to:		
Owners of the Company	<b>(147,271)</b>	(125,604)
Non-controlling interests	<u><b>(354)</b></u>	<u>(323)</u>
	<u><b>(147,625)</b></u>	<u>(125,927)</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

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

		<b>30 June</b>	31 December
		<b>2020</b>	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<b>(unaudited)</b>	<b>(audited)</b>
<b>EQUITY</b>			
Share capital		<b>61,569</b>	61,569
Other reserves		<b>1,285,386</b>	1,421,209
Accumulated losses		<b>(447,465)</b>	(458,702)
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>899,490</b>	1,024,076
Non-controlling interests		<b>1,257</b>	24,296
		<hr/>	<hr/>
<b>Total equity</b>		<b>900,747</b>	1,048,372
		<hr/>	<hr/>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Bank and other borrowings		<b>156,356</b>	157,980
Lease liabilities		<b>57</b>	554
Deferred income tax liabilities		<b>35,942</b>	59,421
		<hr/>	<hr/>
Total non-current liabilities		<b>192,355</b>	217,955
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>16</i>	<b>113,997</b>	182,166
Contract liabilities		<b>6,462</b>	7,872
Lease liabilities		<b>1,105</b>	1,212
Deferred government grants		<b>36,595</b>	26,004
Income tax payable		<b>12,809</b>	12,230
Bank and other borrowings		<b>339,822</b>	346,425
		<hr/>	<hr/>
Total current liabilities		<b>510,790</b>	575,909
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>703,145</b>	793,864
		<hr/>	<hr/>
<b>Total equity and liabilities</b>		<b>1,603,892</b>	1,842,236
		<hr/>	<hr/>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 1 GENERAL INFORMATION

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

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

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

The interim condensed consolidated financial information has been approved for issue by the Board on 26 August 2020. The interim condensed consolidated financial information has not been audited or reviewed by the external auditor.

## 2 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

This interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by HKICPA.

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

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the interim condensed consolidated financial information for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

#### (a) New and amended standards adopted by the Group

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

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

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

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

The following new standards and amendment to standards and interpretations have been issued but are not mandatory for the financial period beginning 1 January 2020 and have not been early adopted:

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

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

<sup>(2)</sup> Effective date to be determined.

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

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

### 4 ESTIMATES

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

In preparing the interim condensed consolidated financial information, the significant judgements made by management in applying the accounting policies of the Group and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.



## 5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### 5.1 Financial risk factors

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

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2019.

### 5.2 Fair value estimation

#### (a) Fair value hierarchy

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

The following table presents the financial assets and financial liabilities of the Group which are measured and recognised at fair value at 30 June 2020 and 31 December 2019 on a recurring basis:

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

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

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(b) *Valuation processes*

The finance department of the Group includes a team that performs the valuation of financial asset required for financial reporting purposes, including Level 3 fair values. This team reports directly to the Chief Financial Officer (“CFO”) and the Audit Committee (“AC”). Discussion of valuation processes and results are held between the CFO, AC and the valuation team.

## 6 SEGMENT INFORMATION

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

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

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

(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.

	<b>Revenue from external customers</b>		<b>Non-current assets*</b>	
	<b>Six months ended 30 June</b>		<b>30 June</b>	<b>31 December</b>
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(audited)</b>
PRC	<b>41,444</b>	27,941	<b>535,955</b>	543,425
Hong Kong	–	7,311	<b>420</b>	709
Other overseas countries	<b>19,935</b>	–	–	–
	<b><u>61,379</u></b>	<b><u>35,252</u></b>	<b><u>536,375</u></b>	<b><u>544,134</u></b>

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

7 **OTHER INCOME**

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

**8 OTHER (LOSSES)/GAINS, NET**

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

**9 OPERATING LOSS**

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

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

## 10 INCOME TAX EXPENSE

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

### Notes:

- (i) During the six months ended 30 June 2020 and 2019, Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profit.
- (ii) The PRC Corporate Income Tax represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the PRC in which the Group operates.

The tax rate applicable to subsidiaries in the PRC is 25% (2019: 25%), except for the PRC subsidiaries established in Qianhai and a PRC subsidiary that was approved as High and New Technology Enterprise which is subject to PRC Corporate Income Tax at a rate of 15% for 3 years from 2019 to 2022 (2019: 15%).

## 11 DIVIDEND

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

## 12 DISCONTINUED OPERATION

At a special meeting of shareholders of Martin Aircraft Company Limited (“MACL”) held on 1 May 2018, the shareholders approved the removal of MACL from the official list of the Australian Security Exchange (the “ASX”) and the delisting of its ordinary shares. As part of the delisting process, MACL has arranged to transition its shares to the USX (a New Zealand unlisted share trading platform) to allow shareholders to continue to trade their shares. MACL was delisted from ASX on 4 June 2018 and the trading of MACL’s shares on USX commenced on 7 June 2018.

MACL faced difficulties in developing its products into commercial use and all business operations were stopped in late 2018. Therefore, MACL was classified as a discontinued operation. During the six months ended 30 June 2020, the Company fully disposed its investment in MACL.

## 13 LOSS PER SHARE

### From continuing operations

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss for the period attributable to owners of the Company	<b>(11,448)</b>	(91,659)
Add: loss for the period from discontinued operations	<u><b>101</b></u>	<u>1,087</u>
Loss for the purpose of basic and diluted loss per share from continuing operations	<u><b>(11,347)</b></u>	<u>(90,572)</u>

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>'000</b>	<b>'000</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic loss per share	<b>6,156,929</b>	6,156,929
Effect of dilutive potential ordinary shares: – Share options of the Company	<u>–</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u><b>6,156,929</b></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:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss for the period attributable to owners of the Company	<u><b>(11,448)</b></u>	<u>(91,659)</u>

For the six months ended 30 June 2020 and 2019, the computation of diluted loss per share does not assume the exercise of the outstanding share options of the Company since the assumed exercise would result in a decrease in loss per share.

**14 PROPERTY, PLANT AND EQUIPMENT**

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

## 15 TRADE AND OTHER RECEIVABLES

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

*Note:*

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

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

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



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

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

*Note:*

During the six months ended 30 June 2020, the Group successfully recovered total trade receivables of approximately RMB48,000,000 related to sale of cloud in previous years, and accordingly reversed the related provision of allowance for credit loss on trade receivables of approximately HK\$27,750,000.

## 16 TRADE AND OTHER PAYABLES

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

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

	<b>Unaudited 30 June 2020</b> <i>HK\$'000</i>	Audited 31 December 2019 <i>HK\$'000</i>
0 – 90 days	20,628	6,869
Over 90 days	13,480	15,258
	<u>34,108</u>	<u>22,127</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### PERFORMANCE REVIEW AND PROSPECTS

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

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

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

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

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

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

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

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

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

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

### **Trade receivables**

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

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

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

## **Manpower development and build-up**

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

## **INTERIM DIVIDEND**

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

## **CAPITAL STRUCTURE**

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

## **LIQUIDITY AND FINANCIAL RESOURCES**

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

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

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

## **CHARGES ON ASSETS**

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

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

## **CONTINGENT LIABILITIES**

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

## **RISK MANAGEMENT**

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

## **IMPACTS OF COVID-19 PANDEMIC**

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

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

## **SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS**

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

KCT, a PRC company listed on the Shenzhen Stock Exchange (stock code: 002625), is principally engaged in developing innovative advanced technology and its core business is in metamaterial intelligent structure and equipment research, as well as the manufacture of seat function components for automobiles. The Group held 71,528,751 ordinary shares of KCT, which represented approximately 3.32% of the KCT issued shares. The carrying amount of our shares in KCT as at 30 June 2020 is HK\$568,471,000 (31 December 2019: HK\$731,390,000), which represented 35.44% (31 December 2019: 39.70%) of the total assets of the Group. A fair value loss of HK\$126,972,000 for the six months ended 30 June 2020 (30 June 2019: a fair value loss of HK\$37,269,000) was recognised in other comprehensive loss. No dividend from KCT for the six months ended 30 June 2020 (31 December 2019: Nil) was received by the Group.

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

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

### **EVENT AFTER THE REPORTING PERIOD**

There was no material event occurred after the Period.

## **CORPORATE GOVERNANCE AND OTHER INFORMATION**

### **CORPORATE GOVERNANCE PRACTICES**

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

Save as disclosed in this announcement, throughout the Period under review, the Company has complied with all applicable code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) (the “**CG Code**”) and where appropriate, adopted some of the recommended best practices as set out in the CG Code. Set out below are the details of the deviations from the code provisions:

### **CG code provision E.1.2.**

CG Code provision E.1.2 stipulates that the chairman of the Board should attend the annual general meeting. Dr. Liu Ruopeng, the chairman of the Board, did not attend the annual general meeting held on 29 June 2020 due to other business commitments.

The Company periodically reviews its corporate governance practices to ensure that they continue to meet the requirements of the CG Code.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Board of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its code of conduct regarding securities transactions by the directors of the Company (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**

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

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

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



## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this announcement, the Company has maintained sufficient public float as required under the Listing Rules.

## **REVIEW OF INTERIM RESULTS**

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

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

Hong Kong, 26 August 2020

*As at the date of this announcement, the Board comprises four executive Directors, namely Dr. Liu Ruopeng, Dr. Luan Lin, Dr. Zhang Yangyang and Dr. Ji Chunlin; one non-executive Director namely Mr. Li Chiu Ho; and three independent non-executive Directors, namely Dr. Wong Kai Kit, Mr. Choi Wing Koon and Dr. Deng Ke.*