

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**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 2022**

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 2022 (the “**Period**”) together with the comparative figures for the same period in 2021 (the “**Comparative Period**”) as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2022**

		<b>Six months ended 30 June</b>	
		<b>2022</b>	<b>2021</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<b>(unaudited)</b>	<b>(unaudited)</b>
Revenue	6	<b>30,931</b>	14,001
Cost of sales		<u><b>(24,554)</b></u>	<u>(7,878)</u>
<b>Gross profit</b>		<b>6,377</b>	6,123
Other income	7	<b>1,478</b>	2,411
Other (losses)/gains, net	8	<b>(15,103)</b>	2,674
Reversal of impairment loss on other receivables (Impairment)/reversal of impairment loss on trade receivables		– <b>(1,723)</b>	14 3,376
Impairment loss on contract assets		–	(4)
Selling and distribution expenses		<b>(13,486)</b>	(9,074)
Research and development expenses		<b>(3,487)</b>	(7,913)
Administrative expenses		<u><b>(13,472)</b></u>	<u>(13,368)</u>
<b>Operating loss</b>	9	<b>(39,416)</b>	(15,761)
Finance income		<b>1,007</b>	1,625
Finance costs		<u><b>(62)</b></u>	<u>(143)</u>
Finance income, net		<u><b>945</b></u>	<u>1,482</u>
<b>Loss before tax</b>		<b>(38,471)</b>	(14,279)
Income tax expense	10	<u>–</u>	<u>–</u>
<b>Loss for the period</b>		<u><b>(38,471)</b></u>	<u>(14,279)</u>
Loss for the period attributable to:			
Owners of the Company		<b>(38,471)</b>	(14,279)
Non-controlling interests		<u>–</u>	<u>–</u>
		<u><b>(38,471)</b></u>	<u>(14,279)</u>
<b>Loss per share</b>			
Basic (HK cents per share)	12	<b>(0.62)</b>	(0.23)
Diluted (HK cents per share)	12	<u><b>(0.62)</b></u>	<u>(0.23)</u>

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

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2022**

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	(unaudited)
<b>Loss for the period</b>	<b>(38,471)</b>	(14,279)
<b>Other comprehensive loss</b>		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<b>(92,646)</b>	(5,577)
<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	<b>(377,711)</b>	(82,744)
Gains on disposal of financial assets at fair value through other comprehensive income	<u>–</u>	<u>48,061</u>
Other comprehensive loss, net of tax	<u><b>(470,357)</b></u>	<u>(40,260)</u>
<b>Total comprehensive loss for the period</b>	<u><b>(508,828)</b></u>	<u>(54,539)</u>
Total comprehensive loss for the period attributable to:		
Owners of the Company	<b>(508,828)</b>	(54,539)
Non-controlling interests	<u>–</u>	<u>–</u>
	<u><b>(508,828)</b></u>	<u>(54,539)</u>

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 2022

		30 June 2022	31 December 2021
	<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	<i>13</i>	<b>438,845</b>	449,390
Investment properties		<b>122,557</b>	130,355
Right-of-use assets		<b>78,006</b>	85,377
Intangible assets		<b>313</b>	411
Financial assets at fair value through other comprehensive income	<i>14</i>	<b>1,138,607</b>	1,654,730
		<hr/>	<hr/>
Total non-current assets		<b>1,778,328</b>	2,320,263
<b>CURRENT ASSETS</b>			
Inventories		<b>13,551</b>	8,537
Contract assets		–	–
Trade and other receivables	<i>15</i>	<b>108,109</b>	120,563
Financial assets at fair value through profit or loss	<i>16</i>	<b>6,077</b>	21,488
Loan receivables		–	–
Pledged bank deposits		<b>926</b>	1,679
Cash and cash equivalents		<b>213,048</b>	297,190
		<hr/>	<hr/>
Total current assets		<b>341,711</b>	449,457
		<hr/>	<hr/>
<b>Total assets</b>		<b>2,120,039</b>	2,769,720

		<b>30 June</b>	31 December
		<b>2022</b>	2021
	<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>2,129,003</b>	2,598,798
Accumulated losses		<b>(474,790)</b>	(436,319)
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>1,715,782</b>	2,224,048
Non-controlling interests		<b>(2)</b>	(2)
		<hr/>	<hr/>
<b>Total equity</b>		<b>1,715,780</b>	2,224,046
		<hr/>	<hr/>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings	<i>17</i>	<b>135,136</b>	153,507
Lease liabilities		<b>87</b>	346
Deferred tax liabilities		<b>129,313</b>	204,852
		<hr/>	<hr/>
Total non-current liabilities		<b>264,536</b>	358,705
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>18</i>	<b>83,078</b>	128,305
Contract liabilities		<b>311</b>	325
Lease liabilities		<b>544</b>	611
Deferred government grants		<b>19,317</b>	20,193
Current tax payable		<b>13,045</b>	13,045
Bank borrowings	<i>17</i>	<b>23,428</b>	24,490
		<hr/>	<hr/>
Total current liabilities		<b>139,723</b>	186,969
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>404,259</b>	545,674
		<hr/>	<hr/>
<b>Total equity and liabilities</b>		<b>2,120,039</b>	2,769,720
		<hr/>	<hr/>

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

## 1 GENERAL INFORMATION

KuangChi Science Limited (the “**Company**”) is a limited company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The address of its registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of its business is located at Unit 1104, 11/F, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together the “**Group**”) are mainly engaged in the development of AI technology and related innovative products and provision of AI technology services and related solutions in various vertical fields (“**AI Business**”).

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

The interim condensed consolidated financial information has been approved for issue by the Board on 30 August 2022. 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 2022 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 2021, 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 and financial assets at fair value through profit or loss 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 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

#### (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 2022:

Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before intended use
Amendments to HKFRS 3	References to the Conceptual Framework
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 10 and HKAS 28	Annual Improvements to HKFRS Standards 2018-2020

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

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

The following new standards and amendment to standards and interpretations have been issued but are not mandatory for the financial period beginning 1 January 2022 and have not been early adopted:

HKFRS 17	Insurance contracts <sup>(1)</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current <sup>(1)</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>(1)</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>(1)</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transactions <sup>(1)</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate and joint venture <sup>(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 2022, 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 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 2021.

## **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 2021.

### **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 2022 and 31 December 2021 on a recurring basis:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>At 30 June 2022</b>				
<b>Financial assets</b>				
Financial assets at fair value through other comprehensive income				
– Listed equity security	1,138,607	–	–	1,138,607
Financial assets at fair value through profit or loss				
– Listed equity securities	<u>6,077</u>	<u>–</u>	<u>–</u>	<u>6,077</u>
	<u><b>1,144,684</b></u>	<u><b>–</b></u>	<u><b>–</b></u>	<u><b>1,144,684</b></u>
<b>At 31 December 2021</b>				
<b>Financial assets</b>				
Financial assets at fair value through other comprehensive income				
– Listed equity security	1,654,730	–	–	1,654,730
Financial assets at fair value through profit or loss				
– Listed equity securities	<u>21,488</u>	<u>–</u>	<u>–</u>	<u>21,488</u>
	<u><b>1,676,218</b></u>	<u><b>–</b></u>	<u><b>–</b></u>	<u><b>1,676,218</b></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 REVENUE AND SEGMENT INFORMATION

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

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$’000</b>	<b>HK\$’000</b>
<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		
– Provision of procurement services	–	2,121
– Sale of artificial intelligent system and related products	<b>22,353</b>	7,412
– Sale of wearable smart helmets	<b>1,880</b>	1,356
– Provision of technical support services based on AI technology	<b>6,698</b>	3,112
	<b>30,931</b>	14,001

(b) **Geographical information**

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

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

	<b>Revenue from</b>		<b>Non-current assets*</b>	
	<b>external customers</b>			
	<b>Six months ended 30 June</b>		<b>30 June</b>	<b>31 December</b>
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>HK\$’000</b>	<b>HK\$’000</b>	<b>HK\$’000</b>	<b>HK\$’000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(audited)</b>
PRC	<b>9,683</b>	11,798	<b>639,721</b>	665,533
Hong Kong	<b>20,404</b>	2,121	–	–
Other overseas countries	<b>844</b>	82	–	–
	<b>30,931</b>	14,001	<b>639,721</b>	665,533

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

## 7 OTHER INCOME

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Government grants	14	1,145
Rental income from investment properties	1,344	811
Sundry income	120	455
	<u>1,478</u>	<u>2,411</u>

## 8 OTHER (LOSSES)/GAINS, NET

	<i>Note</i>	<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2022</b>	<b>2021</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
Exchange gains, net		201	2,674
Gain on disposal of property, plant and equipment		107	–
Fair value losses on financial assets at fair value through profit or loss	<i>16</i>	<u>(15,411)</u>	<u>–</u>
		<u>(15,103)</u>	<u>2,674</u>

Note: As at 30 June 2022, the Group held 402,799 Irisity AB shares, which were measured at fair value of approximately HK\$6,077,000. For the six month ended 30 June 2022, a fair value loss of approximately HK\$15,411,000 was recognised in profit or loss.

## 9 OPERATING LOSS

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Cost of sales	24,554	7,878
Salaries, wages and other benefits	12,604	15,838
Amortisation of intangible assets	83	42
Depreciation of property, plant and equipment	317	1,801
Amortisation of right-of-use assets	3,771	5,826
Directors' emoluments	375	375
Operating lease expenses for office premises and warehouses relating to short-term leases	135	590
Reversal of impairment loss on other receivables	–	(14)
Impairment/(reversal of impairment) loss on trade receivables	1,723	(3,376)
Impairment loss on contract assets	<u>–</u>	<u>4</u>

## 10 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax expenses		
Hong Kong profits tax	–	–
PRC Corporate Income Tax	–	–
	<hr/>	<hr/>
	–	–
	<hr/>	<hr/>

Notes:

- (i) During the six months ended 30 June 2022 and 2021, Hong Kong profits tax is calculated at the rate of 16.5% on the estimated assessable profit for each reporting period. No Hong Kong profits tax has been provided for the six months ended 30 June 2022 as the Group has no assessable profits derived in Hong Kong.
- (ii) The PRC Corporate Income Tax represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the PRC in which the Group operates.

The tax rate applicable to subsidiaries in the PRC is 25% (2021: 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 (2021: 15%).

## 11 DIVIDEND

No dividend was paid, declared or proposed by the Company during the six months ended 30 June 2022 and 2021.

## 12 LOSS PER SHARE

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>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss for the purpose of basic and diluted loss per share	<b>38,471</b>	14,279
	<b>6,156,929</b>	6,156,929
	<b>6,156,929</b>	6,156,929

  

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
<b>Number of shares</b>	<b>2022</b>	<b>2021</b>
	<b>'000</b>	<b>'000</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	<b>–</b>	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	<b>6,156,929</b>	6,156,929

For the six months ended 30 June 2022 and 2021, 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 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Plant and machinery HK\$'000	Furniture and fixture HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>COST</b>							
At 1 January 2021	8,547	9,114	224	16,799	5,476	401,385	441,545
Additions	-	-	-	4	-	34,542	34,546
Transfer to investment properties	(8,547)	-	-	-	-	-	(8,547)
Disposal	-	-	(4)	(214)	(247)	-	(465)
Currency translation differences	-	249	4	452	127	10,978	11,810
<b>At 31 December 2021 and 1 January 2022</b>	<b>-</b>	<b>9,363</b>	<b>224</b>	<b>17,041</b>	<b>5,356</b>	<b>446,905</b>	<b>478,889</b>
<b>Additions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,212</b>	<b>11,212</b>
<b>Disposal</b>	<b>-</b>	<b>-</b>	<b>(46)</b>	<b>(8,107)</b>	<b>(373)</b>	<b>-</b>	<b>(8,526)</b>
<b>Currency translation differences</b>	<b>-</b>	<b>(406)</b>	<b>(8)</b>	<b>(519)</b>	<b>(191)</b>	<b>(19,684)</b>	<b>(20,808)</b>
<b>At 30 June 2022</b>	<b>-</b>	<b>8,957</b>	<b>170</b>	<b>8,415</b>	<b>4,792</b>	<b>438,433</b>	<b>460,767</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>							
At 1 January 2021	317	8,423	224	12,515	4,951	-	26,430
Depreciation	-	471	-	2,365	187	-	3,023
Transfer to investment properties	(317)	-	-	-	-	-	(317)
Disposal	-	-	(4)	(212)	(148)	-	(364)
Currency translation differences	-	230	4	376	117	-	727
<b>At 31 December 2021 and 1 January 2022</b>	<b>-</b>	<b>9,124</b>	<b>224</b>	<b>15,044</b>	<b>5,107</b>	<b>-</b>	<b>29,499</b>
<b>Depreciation</b>	<b>-</b>	<b>71</b>	<b>-</b>	<b>165</b>	<b>81</b>	<b>-</b>	<b>317</b>
<b>Disposal</b>	<b>-</b>	<b>-</b>	<b>(46)</b>	<b>(6,403)</b>	<b>(373)</b>	<b>-</b>	<b>(6,822)</b>
<b>Currency translation differences</b>	<b>-</b>	<b>(398)</b>	<b>(8)</b>	<b>(483)</b>	<b>(183)</b>	<b>-</b>	<b>(1,072)</b>
<b>At 30 June 2022</b>	<b>-</b>	<b>8,797</b>	<b>170</b>	<b>8,323</b>	<b>4,632</b>	<b>-</b>	<b>21,922</b>
<b>CARRYING AMOUNTS</b>							
<b>At 30 June 2022</b>	<b>-</b>	<b>160</b>	<b>-</b>	<b>92</b>	<b>160</b>	<b>438,433</b>	<b>438,845</b>
At 31 December 2021	-	239	-	1,997	249	446,905	449,390

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

	Unaudited 30 June 2022 <i>HK\$'000</i>	Audited 31 December 2021 <i>HK\$'000</i>
Listed security:		
– Equity security (note)	<u>1,138,607</u>	<u>1,654,730</u>

Note: As at 30 June 2022, the Group hold 56,282,860 (31 December 2021: 56,282,860) ordinary shares of Kuang-Chi Technologies Co., Ltd. (“KCT”), representing 2.61% (31 December 2021: 2.61%) of the issued ordinary shares of KCT. Dr. Liu Ruopeng is the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology Limited and holds more than 5% shareholding of KCT. KCT is a company listed on the Shenzhen Stock Exchange. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in financial assets at FVOCI as they believe that recognising short-term fluctuations in these investments in profit or loss would not be consistent with the Group’s strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

## 15 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2022 <i>HK\$'000</i>	Audited 31 December 2021 <i>HK\$'000</i>
Trade receivables	91,138	117,698
Less: allowance for expected credit loss	<u>(55,204)</u>	<u>(55,947)</u>
Trade receivables, net	35,934	61,751
Deposits and other receivables	23,935	24,943
Consideration receivable	22	15
Prepayment to suppliers	29,081	11,197
Other prepayments	–	2,384
Value-added tax and other tax recoverable	<u>19,137</u>	<u>20,273</u>
	<u>108,109</u>	<u>120,563</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 2022 and 31 December 2021:

	<b>Unaudited</b> <b>30 June</b> <b>2022</b> <b>HK\$'000</b>	Audited 31 December 2021 <b>HK\$'000</b>
0 to 90 days	<b>11,059</b>	48,966
91 to 180 days	<b>2,263</b>	10,525
181 to 365 days	<b>21,650</b>	–
1 to 2 years	–	–
Over 2 years	<b>962</b>	2,260
	<b>35,934</b>	<b>61,751</b>

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

	<b>Trade</b> <b>receivables</b> <b>HK\$'000</b>	<b>Contract</b> <b>assets</b> <b>HK\$'000</b>	<b>Total</b> <b>HK\$'000</b>
At 1 January 2021	56,721	11,419	68,140
Provision for impairment loss	–	9,484	9,484
Reversals of impairment loss	(2,266)	–	(2,266)
Currency translation differences	1,527	245	1,772
Uncollectible amounts written off	(35)	(9,715)	(9,750)
At 31 December 2021 and 1 January 2022	<b>55,947</b>	<b>11,433</b>	<b>67,380</b>
Provision for impairment loss	<b>1,723</b>	–	<b>1,723</b>
Currency translation differences	<b>(2,466)</b>	–	<b>(2,466)</b>
At 30 June 2022	<b>55,204</b>	<b>11,433</b>	<b>66,637</b>

## 16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2022 <i>HK\$'000</i>	Audited 31 December 2021 <i>HK\$'000</i>
Listed equity securities		
Listed outside Hong Kong	<u>6,077</u>	<u>21,488</u>

The carrying amounts of the above financial assets are mandatorily measured at fair value through profit or loss in accordance with HKFRS 9. The fair values of listed equity securities are based on current bid prices.

The investments included above represent investment in listed equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate.

As at 30 June 2022, the financial assets at fair value through profit or loss are denominated in Sweden Krona.

## 17 BANK BORROWINGS

	Unaudited 30 June 2022 <i>HK\$'000</i>	Audited 31 December 2021 <i>HK\$'000</i>
Bank borrowings		
– Within 1 year	23,428	24,490
– Between 1 and 2 years	23,428	24,490
– Between 2 and 5 years	111,708	94,175
– Over 5 years	<u>–</u>	<u>34,842</u>
Total bank borrowings	<u>158,564</u>	<u>177,997</u>

As at 30 June 2022, the bank borrowings carried interest of approximately 6.7% to 7.4% p.a. (31 December 2021: 6.7% to 7.4% p.a.) which were secured by the right-of-use assets and the construction-in-progress, amounting to HK\$77,290,000 (31 December 2021: HK\$82,003,000) and HK\$438,433,000 (31 December 2021: HK\$446,905,000) respectively, and were guaranteed by the Company and a company which is controlled by Dr. Liu Ruopeng.

As at 30 June 2022, the total available banking facilities granted to the Group were approximately HK\$391,994,000 (31 December 2021: HK\$346,460,000), of which HK\$nil (31 December 2021: HK\$nil) were not utilised.

## 18 TRADE AND OTHER PAYABLES

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2022</b>	2021
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trade payables	<b>33,515</b>	48,841
Accrued employee benefits	<b>1,815</b>	7,551
Value-added tax and other tax payable	<b>7,819</b>	11,197
Other payables and accruals	<b>17,786</b>	19,754
Accrued construction costs	<b>22,143</b>	40,962
	<b>83,078</b>	128,305

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

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2022</b>	2021
	<b>HK\$'000</b>	<b>HK\$'000</b>
0 – 90 days	<b>1,537</b>	20,981
91-365 days	<b>21,974</b>	18,179
Over 1 year	<b>10,004</b>	9,681
	<b>33,515</b>	48,841

## 19 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period's presentation.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **PERFORMANCE REVIEW AND PROSPECTS**

The Company and its subsidiaries (collectively, the “**Group**”) are mainly engaged in the development of AI technology and related innovative products and provision of AI technology services and related solutions in various vertical fields (“**AI Business**”). For the six months ended 30 June 2022 (the “**Period**”), the Group recorded total revenue of approximately HK\$30.9 million, net loss of HK\$38.5 million and gross profit margin of 20.6%. Compared with the same period last year, the increase in loss was mainly due to the net loss of HK\$15.4 million arising from the change in fair value of the Group’s investment in Irisity AB, an overseas listed company.

The revenue of the Group increased by 121%, which is equivalent to HK\$16.9 million, over the Comparative Period, mainly due to the increase in sales of AI system solutions. The Group believes that with the delivery, deployment and operation of integrated solutions tailored and developed according to the needs of various vertical industries, there remains huge unmet intensive needs of industrial customers. Additionally, the Group has also gained good momentum by offering solutions for problems common among different industries and this laid a technical foundation for the Group’s cross-industry business expansion.

The Company will continue the research and development of underlying core AI technologies with the aim to provide customers in various vertical industries with AI technologies, products, functional modules and integrated solutions. The Company believes that with the development and popularity of 5G network and AI technologies and the growing application of data analysis, smart factory and other services in 2022, the Company’s AI products and integrated solutions business will see gradual improvement and development.

### **INTENSIVELY EXPANDING APPLICATIONS IN DIVERSE MARKETS AND INDUSTRIES**

The Group has long focused on AI technology, including the research, development, delivery and deployment of big data collection and analysis platforms based on AI algorithms and application in vertical industries. The Group has developed a variety of smart software and hardware products, algorithm functional modules and integrated solutions, and provided tailored services in relation to development, system integration, installation, debugging, operation and maintenance according to customers’ needs. On one hand, the Group is committed to the research, development, continuous updating and iterative operation of the underlying AI technology. On the other hand, with the underlying technology as its core competitiveness, the Group accumulates and continuously develops application scenarios for specific vertical industries.

By conducting analysis and gaining insights into the problems faced by potential customers in different industries, the Group designs and develops AI algorithm functions according to the needs and pain points of customers. Meanwhile, the Group continuously upgrades and enhances its intelligent algorithms, system application modules and platforms based on the feedback of industry applications accumulated in the early stage, and provides products or integrated solutions that can be well integrated into customers' business processes and meet industry standards.

Currently, the Group has designed and developed a series of underlying core AI algorithms, smart wearable products, functional modules and system management platforms for vertical industry applications. During the Period, at the technical level, the Group continuously improved the performance of algorithm software, enhanced functions, upgraded iterative operation, and carried out tailored research and development of new intelligent products; at the application level, the Group constantly gained access to and guided the needs in the vertical fields of public security, health and epidemic prevention that have been served by the Group. In addition, the Group expanded applications to a variety of fields such as industrial testing, intelligent production management and intelligent data analysis, so as to empower and improve the performance of various industries.

In the field of public security, health and epidemic prevention, the Group's smart helmets have been sold in various places nationwide, and its use on a regular basis has received wide recognition from local public security authorities. The Group's smart helmets have officially become a police equipment item on the procurement list of the government procurement office of the Ministry of Public Security, which paves way for further expanding the scope of use and shortening the procurement process of the Group's smart helmets. In the field of health and epidemic prevention, during the Period, the Group improved its smart anti-COVID helmet which it innovated, and added the enhancement algorithm for AR display energy consumption and recognition algorithm for partial masking. Given the constant mutation and ongoing spread of COVID-19 around the world, temperature measurement for people who enter and leave public areas such as schools, hospitals, supermarkets, parks or public transport vehicles is still one of the most important measures to prevent and control COVID-19. Customers from home and abroad have continued to purchase the smart anti-COVID helmet as one of the anti-COVID supplies as it can perform contactless temperature measurement instantly in areas with heavy traffic and wide coverage and raise an alarm when it detects anomalies.

In the field of smart industry and testing, the smart industrial testing system platform and smart factory solutions developed by the Group can closely cater for customer needs. The smart industrial testing system platform and smart factory solutions of the Group are characterised by its full dimensional planning, full area coverage, full process visual features and smart protection. During the Period, the Group was engaged by industrial application customers in Shanghai and Guangdong, and completed the research and development of functional modules and algorithms in relation to smart control of production process and smart testing of industrial equipment. Currently, certain functional modules are being tested and deployed to improve the operating efficiency and equipment usage rate of the factories involved. In the field of data analysis services, the Group has updated and enhanced big data acquisition, video analysis, data screening, data link, and iterative operation of analysis algorithms for specific object action. Through conducting identification, analysis and collation of the big data of vertical application industries, the Group has developed visual expression, deduction process and dynamic sorting services, and promoted the integration of industry data and modern AI technology through digital innovation. The data analysis services developed and provided by the Group have been applied to customer action analysis and e-commerce precision marketing, in a bid to improve service efficiency and customer experience. At the same time, the data analysis services are also applied to the whole-process control of smart factories to increase the usage rate of various production factors, reduce the operating costs and improve the operating efficiency of factories.

As the Group's smart products and integrated solutions are increasingly applied in vertical fields such as public security, smart industrial testing and data analysis, the Group continues to promote the in-depth integration of the new generation of AI with various vertical industries and explore new applications and business opportunities. On one hand, the Group continues the development, upgrading and iterative operation of existing products and solutions, such as the design and development of a new generation of smart helmet products integrating 5G technologies to provide industry customers with multi-dimensional and in-depth data analysis services and improve the application value of data. On the other hand, the Group is also accelerating the research, development and launch of new products and solutions in the newly expanded industries. During the Period, the epidemic resurged in Shanghai, Shenzhen and other places in China, and local governments adopted strict epidemic control measures. As a result, the Group's engagement with industrial customers in the Yangtze River Delta and the Pearl River Delta regions and the testing and delivery of product solutions were affected to a certain extent. The management of the Group believes that as 5G network, cloud computing, big data and other technologies develop, the AI industrial chain, innovation chain and value chain created by the Group will penetrate into the transformation and intelligent upgrading of more production and life scenarios, and the Group will create more industrial value for vertical industries while pursuing its own development goals.

## **MANPOWER DEVELOPMENT**

Guided by the innovation-driven development strategy, the Group regards it a major strategic goal to attract and cultivate excellent and innovative talents when it comes to talent training and nurturing. The Group has introduced high-tech talents in related fields such as AI algorithms, big data, software engineering and electronic information to establish an innovative talent training system and development mechanism around the world. As at 30 June 2022, the Group had 86 employees, of whom approximately 19.1% have a master's degree or above. They lay a solid foundation for the Group's innovation and development in its main business.

## **INTERIM DIVIDEND**

The Board resolved not to declare any interim dividend for the Period (2021: nil).

## **CAPITAL STRUCTURE**

On 22 April 2021, the Board announced that the Company granted share options to certain eligible employees, subject to acceptance by the grantees, to subscribe for a total of 27,000,000 ordinary shares with a par value of HK\$0.01 each in the share capital of the Company under the share option scheme adopted by the Company on 31 July 2012.

As at 30 June 2022, the Company has issued 6,156,928,860 ordinary shares. The Group finances its working capital requirements through a combination of funds generated from operations and borrowings. The Group had cash and cash equivalents of HK\$213,048,000 as at 30 June 2022, a decrease of HK\$84,142,000 as compared to 31 December 2021.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2022, the Group's total shareholders' funds amounted to approximately HK\$1,715,780,000 (31 December 2021: HK\$2,224,046,000). Total assets were approximately HK\$2,120,039,000 (31 December 2021: HK\$2,769,720,000) and total liabilities were approximately HK\$404,259,000 (31 December 2021: HK\$545,674,000).

As at 30 June 2022, the Group had cash and cash equivalents of approximately HK\$213,048,000 (31 December 2021: HK\$297,190,000) and pledged bank deposits of approximately HK\$926,000 (31 December 2021: HK\$1,679,000). The gearing ratio as of 30 June 2022, is calculated as net debt divided by total capital, which is defined as the percentage of the total interest-bearing debt, including lease liabilities and bank and other borrowings of approximately HK\$631,000 (31 December 2021: HK\$957,000) and HK\$158,564,000 (31 December 2021: HK\$177,997,000), respectively to total capital, was not applicable (31 December 2021: nil) due to net cash.

As at 30 June 2022, the Group's total bank borrowings of approximately HK\$158,564,000 (31 December 2021: HK\$177,997,000), of which approximately HK\$23,428,000 (31 December 2021: HK\$24,490,000) and HK\$135,136,000 (31 December 2021: HK\$153,507,000) will be repayable within one year and after one year respectively, carried interest rate at the floating rates from 6.7% to 7.4% (31 December 2021: 6.7% to 7.4%) per annum.

As at 30 June 2022, the total available banking facilities granted to the Group were HK\$391,994,000 (31 December 2021: HK\$346,460,000), of which nil (31 December 2021: nil) was not utilised.

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

Particulars of bank borrowings of the Group as at 30 June 2022 are set out in note 17 to the condensed consolidated financial information.

## **PLEDGE OF ASSETS**

As at 30 June 2022, the right-of-use assets amounted to HK\$77,290,000 (31 December 2021: HK\$82,003,000) and construction-in-progress amounted to HK\$438,433,000 (31 December 2021: HK\$446,905,000) were pledged for the Group's bank borrowings. The bank deposits amounted to HK\$926,000 as at 30 June 2022 (31 December 2021: HK\$1,679,000) were pledged for the construction work and service contracts.

## **CONTINGENT LIABILITIES**

As at 30 June 2022, the Group had no significant contingent liabilities.

## **RISK MANAGEMENT**

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

## SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

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

KCT, a company established in the PRC and 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.

On 25 March 2015, the Group entered into a subscription agreement with KCT, pursuant to which KCT conditionally agreed to issue, and the Group conditionally agreed to subscribe for 42,075,736 new shares of KCT at the consideration of RMB300.0 million (equivalent to approximately HK\$345.0 million). On 11 November 2016, the Group obtained the approval from the China Securities Regulatory Commission for the subscription and certain conditions of the subscription agreement have been satisfied. The subscription right is a derivative that measured at fair value through profit or loss. During the year ended 31 December 2016, the Group recognised a gain of HK\$1,021.1 million on the initial recognition of the subscription right of such shares and a loss from changes in fair value of HK\$229.9 million. The subscription has been completed and the new shares was listed on the Shenzhen Stock Exchange on 13 February 2017 and was recognised as available for- sale financial assets (“**AFS**”) on the same day. As at 13 February 2017, the fair value of the derivatives right of shares of KCT amounted to approximately HK\$1,419.7 million and hence the Group recognised a fair value gain of HK\$616.4 million upon the conversion of derivative in the consolidated statement of profit or loss. Subsequent to the completion of subscription on 13 February 2017, the Group held approximately 3.2% of the ordinary shares of KCT issued. The Board considers the Company has no significant influence over KCT and no right to appoint any director, and hence classified the investment in KCT as AFS investment at HK\$1,419.7 million which is the fair value of KCT as at 13 February 2017.

The Group disposed of a total of 15,245,891 KCT shares (“**KCT Disposal**”) on the open market through a series of transactions during the period from 20 January 2021 to 8 February 2021, at the aggregate consideration of approximately RMB385,718,000. The average selling price of disposal of KCT shares was approximately RMB25.30. After the KCT Disposal, the sale proceeds were approximately HK\$442,970,000, the Group recognised a fair value gain of approximately HK\$57,527,000 for the KCT Disposal in other comprehensive income for the year ended 31 December 2021.

As at 30 June 2022, the Group held 56,282,860 ordinary shares of KCT, which represented approximately 2.61% of the KCT issued shares. As at 30 June 2022, the carrying amount of the share of KCT is HK\$1,138,607,000 (31 December 2021: HK\$1,654,730,000, after KCT Disposal), which represented 53.7% (31 December 2021: 59.7%, after KCT Disposal) of the total assets of the Group. No dividend from KCT for the six months ended 30 June 2022 (31 December 2021: Nil) was received by the Group.

For the six months ended 30 June 2022, the fair value loss of HK\$377.7 million (30 June 2021 fair value loss: HK\$82.7 million) was recognised in other comprehensive income.

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.

#### **FUTURE PLANS FOR MATERIAL INVESTMENTS**

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

#### **CORPORATE GOVERNANCE AND OTHER INFORMATION**

##### **Corporate Governance Practices**

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

The Company has adopted the code provisions (“**Code Provisions**”) as stated in the Corporate Governance Code and Corporate Governance Report (“**CG Code**”) contained in Appendix 14 to the Listing Rules as the corporate governance code of the Company. The Board is committed to complying with the Code Provisions as stated in the CG Code to the extent that the Directors of the Company consider it is applicable and practical to the Company.

Save as the deviation from the Code Provisions F.2.2 of the CG Code, the Company has complied with the CG Code during the six months ended 30 June 2022 under review.

Code provision F.2.2 of the CG Code stipulates that the chairman of the board of directors should attend annual general meetings. The Chairman of the Board of Directors, Dr. Liu Ruopeng did not attend the annual general meeting held on 22 June 2022 due to other business commitments. In this respect, Dr. Luan Lin, the Chief Executive Officer and executive Director of the Company, took the chair of that meeting to answer questions to ensure effective communication with the shareholders at the meeting.

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

The Company has adopted the Model Code for Securities Transactions by Board of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry procedures by the Company, that they had complied with the requirements as set out in the Model Code throughout the Period.

#### **CHANGE OF DIRECTORS’ INFORMATION**

There is no change in Director’s biographical details since the date of the Annual Report 2021 and up to the date of this announcement, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

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

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

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this 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 2022. The Audit Committee is satisfied with the review and the Board is also satisfied with the Audit Committee's report.

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

Shenzhen, the PRC, 30 August 2022

*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.*