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KUANGCHI SCIENCE LIMITED

光啟科學有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)

**FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022**

The board of directors (the “**Board**”) of KuangChi Science Limited (the “**Company**”) would like to announce the audited consolidated results of the Company and its subsidiaries for the year ended 31 December 2022 (the “**Year**”) together with the comparative figures for the same period in 2021 (“**FY2021**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

		2022	2021
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	52,523	113,972
Cost of sales		(41,697)	(72,242)
Gross profit		10,826	41,730
Other income	5	11,602	21,013
Other (losses)/gains, net	5	(23,271)	3,725
(Impairment loss)/reversal of impairment loss			
on trade receivables		(3,328)	2,266
Impairment loss on contract assets		(123)	(9,484)
Selling and distribution expenses		(22,879)	(35,495)
Research and development expenses		(11,377)	(18,217)
Administrative expenses		(31,671)	(48,637)
Operating loss	6	(70,221)	(43,099)
Finance income		2,404	2,698
Finance costs		(95)	(207)
Finance income, net	7	2,309	2,491
Loss before tax		(67,912)	(40,608)
Income tax expense	8	–	–
Loss for the year		(67,912)	(40,608)
Loss for the year attributable to owners of the Company		(67,912)	(40,608)
Loss per share			
Basic (HK cents per share)	9	(1.10)	(0.66)
Diluted (HK cents per share)	9	(1.10)	(0.66)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022 HK\$'000	2021 HK\$'000
Loss for the year	(67,912)	(40,608)
Other comprehensive income after tax:		
<i>Items that may be reclassified to profit or loss:</i>		
Release of other reserves upon deregistration of subsidiaries	688	–
Exchange differences on translation of foreign operations	<u>(163,172)</u>	<u>40,663</u>
	<u>(162,484)</u>	<u>40,663</u>
<i>Items that will not be subsequent reclassified to profit or loss:</i>		
Changes in fair value of financial assets at fair value through other comprehensive income (“FVOCI”) – gross	(443,814)	252,367
Less: Deferred tax	<u>66,572</u>	<u>(26,823)</u>
	<u>(377,242)</u>	<u>225,544</u>
Other comprehensive income, net of tax	<u>(539,726)</u>	<u>266,207</u>
Total comprehensive income for the year	<u>(607,638)</u>	<u>225,599</u>
Total comprehensive income for the year attributable to owners of the Company	<u>(607,638)</u>	<u>225,599</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

		2022	2021
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		437,600	449,390
Investment properties		115,309	130,355
Right-of-use assets		73,608	85,377
Intangible assets		225	411
Financial assets at FVOCI	<i>11</i>	<u>1,080,646</u>	<u>1,654,730</u>
Total non-current assets		<u>1,707,388</u>	<u>2,320,263</u>
CURRENT ASSETS			
Inventories		14,857	8,537
Contract assets		13,733	–
Trade and other receivables	<i>12</i>	77,851	120,563
Financial assets at fair value through profit or loss ("FVPL")		2,016	21,488
Loans receivables		–	–
Pledged bank deposits		894	1,679
Bank and cash balances		<u>162,948</u>	<u>297,190</u>
Total current assets		<u>272,299</u>	<u>449,457</u>
Total assets		<u>1,979,687</u>	<u>2,769,720</u>

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
EQUITY			
Share capital		61,569	61,569
Other reserves		2,059,659	2,598,798
Accumulated losses		(504,231)	(436,319)
		<hr/>	<hr/>
Equity attributable to owners of the Company		1,616,997	2,224,048
Non-controlling interests		–	(2)
		<hr/>	<hr/>
Total equity		1,616,997	2,224,046
		<hr/>	<hr/>
LIABILITIES			
NON-CURRENT LIABILITIES			
Lease liabilities		–	346
Bank borrowings		118,860	153,507
Deferred tax liabilities		122,152	204,852
		<hr/>	<hr/>
Total non-current liabilities		241,012	358,705
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and other payables	<i>13</i>	67,849	128,305
Contract liabilities		115	325
Deferred government grants		18,603	20,193
Lease liabilities		318	611
Bank borrowings		22,562	24,490
Current tax payable		12,231	13,045
		<hr/>	<hr/>
Total current liabilities		121,678	186,969
		<hr/>	<hr/>
Total liabilities		362,690	545,674
		<hr/>	<hr/>
Total equity and liabilities		1,979,687	2,769,720
		<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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 in the research, and development and manufacturing of innovative products for future technology business and provision of other innovative technology service solution.

In the opinion of the directors of the Company, its immediate holding company is New Horizon Wireless Technology Limited which is incorporated in the British Virgin Islands. Its ultimate holding company is Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership which was established in the People’s Republic of China (the “**PRC**”). Its ultimate controlling party is Dr. Liu Ruopeng, who is also an executive director of the Company.

These consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), unless otherwise stated.

2 BASIS FOR PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Companies Ordinance (Cap. 622).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

The Group incurred losses of HK\$67,912,000 and HK\$40,608,000 for the years ended 31 December 2022 and 2021, respectively. In preparing these consolidated financial statements, the directors of the Company have given careful consideration to the impact of the current and anticipated future liquidity of the Group and the Company and the ability of the Group and the Company to attain profit and positive cash flows from operations in the immediate and longer term.

After taking into account the available financial resources, the directors believe that the Group will have sufficient working capital to finance its operations and to meet its financial liabilities as and when they fall due in the foreseeable future. Accordingly, the directors consider that it is appropriate to prepare these consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

3 ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16 (March 2021)	COVID-19-Related Rent Concessions beyond 30 June 2021
Annual Improvements Project	Annual Improvements to HKFRS Standards 2018-2020
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations

The Group did not change its accounting policies or make retrospective adjustments as a result of adopting the abovementioned amended standards or annual improvements.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not applied any new standard, amendments to standards and interpretation that have been issued but are not yet effective for the financial year beginning 1 January 2022. The new standard, amendments to standards and interpretation include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1 – Non-current Liabilities with Covenants	1 January 2024
Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8 – Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12 – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA
Amendments to HKFRS 16 – Lease Liability in a Sales and Leaseback	1 January 2024
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4 REVENUE AND SEGMENT REPORTING

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

	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
Revenue from contracts with customers		
within the scope of HKFRS 15		
<i>Disaggregated by major products or service lines</i>		
Revenue recognised at a point in time		
– Sales of wearable smart helmets	5,159	13,110
– Provision of procurement services	–	9,923
Revenue recognised over time		
– Sales of artificial intelligent coverage system and related products	40,907	73,924
– Provision of technical support services based on AI technology	6,457	17,015
	<u>52,523</u>	<u>113,972</u>

Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) of sales of artificial intelligent coverage system and related products as at 31 December 2022 and 2021 and the expected timing of recognising revenue as follows:

	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
Within one year	<u>14,561</u>	<u>7,750</u>

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its provision of technical support services based on AI technology that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for technical support services that had an original expected duration of one year or less.

(b) **Segment information**

HKFRS 8 “Operating Segments” requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors, the chief operating decision maker (the “CODM”), in order to allocate resources to the segments and to assess their performance.

The financial information provided to the 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.

Segment revenue and results

The financial information presented to the CODM is consistent with the consolidated statement of profit or loss. The CODM consider the Group's loss for the year as the measurement of the segment results.

Geographical information

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

Information about the Group's revenue from external customers is presented based on the location at which the goods delivered or the services were provided. Information about the Group's non-current assets is presented based on the geographical locations of the assets.

	Revenue from external customers		Non-current assets*	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
PRC	31,305	83,052	626,742	666,533
Hong Kong	20,404	26,387	–	–
Others	814	4,533	–	–
	52,523	113,972	626,742	666,533

* *Non-current assets exclude financial assets at FVOCI.*

Information about major customers

Revenues from customers contributing 10% or more of the total revenue of the Group for the years ended 31 December 2022 and 2021:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer 1	20,404	17,002
Customer 2	11,155	16,464
Customer 3	7,174	13,519
Customer 4	6,457	12,641
Customer 5	N/A[#]	11,682

[#] *The corresponding revenue did not contribute 10% or more of the total revenue of the Group.*

5 OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Other income			
Government grants	(a)	85	16,039
Consultancy service income		172	191
Dividend income from financial assets at FVOCI		8,819	–
Rental income from investment properties		2,250	2,119
Sundry income		276	2,664
		<u>11,602</u>	<u>21,013</u>
Other (losses)/gains, net			
Exchange (loss)/gain, net		(4,362)	8,600
Loss on deregistration of subsidiaries		(689)	–
Gain/(loss) on disposal of property, plant and equipment		483	(65)
Property, plant and equipment written off		(1,536)	–
Fair value (losses)/gains on financial assets at FVPL		(19,472)	2,284
Loss on disposal of financial assets at FVPL		–	(7,703)
Other payable written back		5,223	–
Others		(2,918)	609
		<u>(23,271)</u>	<u>3,725</u>

Note:

- (a) Government grants represented cash subsidies received from the PRC local government for the Group's research and development activities during the years ended 31 December 2022 and 2021. There are no unfulfilled conditions or contingencies relating to such government grant income.

6 OPERATING LOSS

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Employee benefit expenses	31,646	47,115
Cost of inventories sold	39,236	65,545
Cost of services	2,461	6,697
Amortisation of intangible assets (included in administrative and research and development expenses)	158	137
Amortisation of right-of-use assets	5,284	7,965
Auditor's remuneration		
– Current year	1,300	1,300
– Under provision in prior year	422	6
	<u>1,722</u>	<u>1,306</u>
(Gain)/loss on disposal of property, plant and equipment	(483)	65
Property, plant and equipment written off	1,536	–
Depreciation of property, plant and equipment	553	3,023
Depreciation of investment properties	4,922	4,578
Direct operating expenses of investment properties that generate rental income (excluding depreciation)	825	1,096
Lease payments not included in the measurement of lease liabilities	668	877
Impairment loss/(reversal of impairment loss) on trade receivables	3,328	(2,266)
Impairment loss on contract assets	123	9,484
	<u>123</u>	<u>9,484</u>

Cost of inventories sold includes employee benefit expenses of approximately HK\$4,523,000 (2021: HK\$11,193,000) which are included in the amounts disclosed separately.

7 FINANCE INCOME, NET

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Finance income		
Interest income:		
– Short term and time deposits	<u>2,404</u>	<u>2,698</u>
Finance costs		
Interest expenses:		
– Lease liabilities	(66)	(113)
– Bank borrowings	<u>(11,541)</u>	<u>(12,709)</u>
	(11,607)	(12,822)
Amounts capitalised into construction in progress	<u>11,512</u>	<u>12,615</u>
Finance costs charged to profit or loss	<u>(95)</u>	<u>(207)</u>
Finance income, net	<u>2,309</u>	<u>2,491</u>

8 INCOME TAX EXPENSE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current income tax		
PRC Corporate Income Tax	<u>–</u>	<u>–</u>

Hong Kong profits tax is calculated at 16.5% (2021: 16.5%) on the estimated assessable profits for the year. No Hong Kong profits tax has been provided for both years as the Group has no assessable profit derived in Hong Kong.

PRC Corporate Income Tax (“CIT”) is calculated at a rate of 25% (2021: 25%), except for one PRC subsidiary with High and New Technology Enterprise Certificate that is subject to a reduced preferential CIT rate of 15% from 2022 to 2025 (2021: 2019 to 2022) according to the applicable CIT Law.

The reconciliation between the income tax expense and the product of loss before tax multiplied by Hong Kong Profits Tax Rate is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Loss before tax	<u>(67,912)</u>	<u>(40,608)</u>
Tax at Hong Kong Profits Tax rate of 16.5%	(11,205)	(6,700)
Tax effect of different tax rates of subsidiaries operations in other jurisdictions and region	(1,776)	(1,900)
Expenses not deductible for tax purposes	8,274	6,782
Income not taxable for tax purposes	(4,749)	(5,437)
Tax losses not recognised	9,158	9,679
Tax effect of temporary differences not recognised	1,261	1,460
Utilisation of tax losses previously not recognised	<u>(963)</u>	<u>(3,884)</u>
Income tax expense	<u>–</u>	<u>–</u>

9 LOSS PER SHARE

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

Loss figures are calculated as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Loss for the purpose of basic and diluted loss per share for the year attributable to owners of the Company	<u>(67,912)</u>	<u>(40,608)</u>

Number of shares are calculated as follows:

	2022 <i>'000</i>	2021 <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>6,156,929</u>	<u>6,156,929</u>

For the years ended 31 December 2021 and 2022, the computation of diluted loss per share does not assume the exercise of the outstanding shares options issued because the exercise price of these options was higher than the average market price of the Company's shares.

10 DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2022, nor has any dividend been proposed since the end of the reporting period (2021: Nil).

11 FINANCIAL ASSETS AT FVOCI

	<i>Note</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Representing:			
Listed equity securities	<i>(a)</i>	1,080,646	1,654,730
Unlisted equity securities		<u>–</u>	<u>–</u>
		<u>1,080,646</u>	<u>1,654,730</u>

The fair values of listed equity securities are based on current bid prices.

As at 31 December 2022 and 2021, the carrying amounts of the listed equity securities are denominated in RMB.

Note:

(a) Listed equity securities

As at 31 December 2022, the Group hold 56,282,860 (2021: 56,282,860) ordinary shares of Kuang-Chi Technologies Co., Ltd. (“**KCT**”), representing 2.61% (2021: 2.61%) of the issued ordinary shares of KCT (“**KCT Shares**”). Dr. Liu Ruopeng is the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology Limited 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.

During the year ended 31 December 2021, the Group disposed of 15,245,891 ordinary shares of KCT in the open market through a series of transactions, while the proceeds were used for repayment of other borrowings and working capital purpose. The proceeds from disposal were HK\$442,970,000. There is no disposal during the year.

12 TRADE AND OTHER RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	77,815	117,698
Less: allowance for ECL	<u>(54,786)</u>	<u>(55,947)</u>
Trade receivables, net	23,029	61,751
Deposits and other receivables	24,857	24,943
Consideration receivable	22	15
Prepayments to suppliers	11,619	11,197
Other prepayments	1,783	2,384
Value-added tax and other taxes recoverable	<u>16,541</u>	<u>20,273</u>
	<u>77,851</u>	<u>120,563</u>

The Group did not hold any collateral over these balances as at 31 December 2022 (2021: Nil).

Notes:

- (a) The following is an aging analysis of trade receivables presented based on the date of revenue recognition and net of allowance as at 31 December 2022 and 2021.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 to 90 days	18,771	48,966
91 to 180 days	265	10,525
181 to 365 days	331	–
1 to 2 years	3,239	–
2 to 3 years	<u>423</u>	<u>2,260</u>
	<u>23,029</u>	<u>61,751</u>

The credit terms generally are within 30 days (2021: 30 to 150 days).

- (b) Movements in loss allowance account for the trade receivables and contract assets during the years ended 31 December 2022 and 2021 are as follows:

	Trade receivables <i>HK\$'000</i>	Contract assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2021	56,721	11,419	68,140
Impairment loss recognised	–	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)
	<u>55,947</u>	<u>11,433</u>	<u>67,380</u>
At 31 December 2021	<u>55,947</u>	<u>11,433</u>	<u>67,380</u>
At 1 January 2022	55,947	11,433	67,380
Impairment loss recognised	3,328	123	3,451
Currency translation differences	(4,489)	(927)	(5,416)
	<u>54,786</u>	<u>10,629</u>	<u>65,415</u>
At 31 December 2022	<u>54,786</u>	<u>10,629</u>	<u>65,415</u>

As at 31 December 2022 and 2021, the loss allowance for the trade receivables mainly included the provisions on Customer A, who is a state-owned enterprise. The outstanding balance due from Customer A was derived from the Cloud business in prior years and amounted to HK\$47,586,000 and HK\$51,652,000 as at 31 December 2022 and 2021, respectively, which have been fully impaired. Since the end of 2017, Customer A always defaulted its payments, and the Group had been continuously making regular contacts with Customer A for collection of the outstanding amount, but only partial settlement has been received up to the end of 2019. After taking into account of historical default rate in relation to the Cloud business, no repayment schedule being provided by Customer A and the worsen economic situation of the PRC, the directors of the Company are of the view that full impairment loss has been made on its outstanding balances at the end of 2019.

- (c) The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
USD	–	16,113
RMB	<u>23,029</u>	<u>45,638</u>
	<u>23,029</u>	<u>61,751</u>

The carrying amounts of the Group's deposits and other receivables are mainly denominated in RMB.

13 TRADE AND OTHER PAYABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables	28,782	48,841
Accrued employee benefits	4,921	7,551
Value-added tax and other taxes payables	4,658	11,197
Other payables and accruals	11,906	19,754
Accrued construction costs	17,582	40,962
	<u>67,849</u>	<u>128,305</u>

Notes:

- (a) The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 to 90 days	15,468	20,981
91 to 365 days	602	18,179
Over 1 year	12,712	9,681
	<u>28,782</u>	<u>48,841</u>

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit period.

- (b) The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
USD	–	15,009
RMB	28,782	33,832
	<u>28,782</u>	<u>48,841</u>

The carrying amounts of the Group's other payables and accruals are mainly denominated in RMB.

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Review and Prospects

The Company and its subsidiaries are mainly engaged in the development and manufacturing of AI technology and related innovative products based on a big data analysis platform, and the provision of AI-empowered terminal products and integrated technical services and solutions in various vertical fields (“**AI Business**”). For the 12 months ended 31 December 2022, the Group recorded a sale revenue of approximately HK\$52.5 million and a net loss of approximately HK\$67.9 million. The Group’s sale revenue decreased year-on-year by 53.9%, mainly due to last year’s epidemic prevention and control in China which had disrupted the movement of people and goods resulting in delays in order processing and delivery of some projects of the Group to different extents, which deviated from the original plan. Compared with the same period last year, the increase in the Group’s net loss for the period by HK\$27.3 million was mainly due to the net loss of approximately HK\$19.5 million arising from the change in the fair value of the Group’s investment in Irisity AB, an overseas listed company. Meanwhile, the Group further reduced operating expenses through control and optimisation of various costs.

Focusing on key industries to expand application Scenarios

As of 31 December 2022, the Group had expanded to the fields of intelligent industrial production management by focusing on market development and product iteration and based on the successful delivery of applications in public security and other fields. Based on core AI algorithms and a big data analysis platform, the Group’s product team conducts analysis to understand the problems faced by potential customers in different industries, and designs and develops tailored solutions according to customer needs. Based on feedback on large-scale industry applications, the team has further optimised and upgraded algorithms and the algorithm platform to provide products or integrated solutions that meet industry standards and deeply integrate into customers’ business processes.

Currently, smart industrial testing is a hotspot area of technological innovation and industrial upgrading. With the ongoing development and application of AI, IoT, cloud computing, big data and other technologies, smart industrial testing plays an increasingly important role in production, manufacturing and quality control. In this context, the Group will continue to strengthen research and investment in smart industrial testing, in an effort to become a leader in specific market segments. Smart industrial testing systems and smart factory solutions should keep up with the customer needs and have the advantages of being highly targeted, adaptable and efficient. During the Year, the Group completed the testing of delivery of the first batch of projects for smart production process control and smart industrial equipment inspection

in Guangdong and Chongqing, greatly improving the operational efficiency and equipment utilisation rate of the target factories. At the same time, the Group will continue to meet the customised development needs of customers for smart industrial testing by further exploring applications in more segments and of more modules, consolidating and expanding the scope of products and solutions, and developing more comprehensive and practical smart industrial testing solutions. We believe that with our team's efforts and continuous technological innovation, we will be able to constantly improve capabilities in smart industrial testing and provide customers with high-quality, efficient, and highly customised products and solutions, thus helping them achieve excellent business results.

In core business areas such as public security, the Group's wearable smart helmets have been widely used, providing support for industry user as an efficient and smart tool. Through continuous optimisation and iteration based on customer feedback, the Group's wearable smart helmets have been upgraded with better performance and richer functions. Having been applied in over 50 cities in more than 20 provinces, such products and solutions have been well recognised by customers and received good market feedback. With a focus on the iteration and innovation of technologies and products, the Group will continuously improve the performance and functions of wearable smart products to meet the emerging needs of customers. In addition, the Group will continue to tap the needs of public security and lead the development of the sector, with a view to contributing to social security. At the technical level, the Group will constantly strengthen the design and development of core algorithms to improve the intelligent level and accuracy of products. At the application level, the Group will deeply explore the industrial needs, develop applications and solutions in line with market needs to empower the sector, and provide more convenient services for society.

With the expansion of application scenarios of the Group's smart terminal products and integrated solutions in verticals such as public security, industrial production and testing and the accumulation of data in relevant sectors, the Group will be able to provide customers with broader and deeper services in more dimensions. Moreover, deeper industry insights will help our team accelerate the research, development and delivery of new products and solutions, and bring business opportunities for the integration of next-generation AI technology into application scenarios in vertical sectors. The management of the Group will, as always, uphold the philosophy of strategic stability and innovative development, adhere to the customer-centric, quality-oriented principle, and strengthen internal management optimisation and marketing efforts, in an ongoing effort to improve the competitiveness and market share of the Group. We will continue to deliver high-quality products and services to customers by developing superior and more efficient solutions.

FINANCIAL REVIEW

Revenue and operating performance

The Group's revenue decreased from approximately HK\$114.0 million for FY2021 to approximately HK\$52.5 million for the Year, a decrease of approximately HK\$61.5 million or 53.9%. The decrease was mainly due to the order and delivery cycle of some projects of the Group having been delayed because of the epidemic prevention and control in China last year.

The net loss of the Group increased by approximately HK\$27.3 million or 67.2% from approximately HK\$40.6 million for FY2021 to approximately HK\$67.9 million for the Year. Compared with the same period last year, the increase in net loss was mainly due to the net loss of approximately HK\$19.5 million arising from the change in fair value of the Group's investment in Irisity AB, an overseas listed company. Meanwhile, the Group has also further optimised its internal operations.

Manpower development

With regard to manpower development, the Company strengthened the innovative talent training system and development mechanism to enhance the quality of the talent pool. The Group will uphold the key strategy of attracting and nurturing high-calibre and innovative employees, and introduce high-tech talents in AI algorithms, big data, electronic information, and other related fields from around the world. As of 31 December 2022, the Group had 67 employees and consultants, 14 of which have a master's degree or above, representing approximately 20.9%, laying a solid foundation for the Group's innovation and future development.

Other results

On 22 April 2021, the Company granted 27,000,000 new share options to certain eligible employees under the share option scheme adopted by the Company on 31 July 2012, and the relevant share-based payment expenses for the Year were approximately HK\$587,000 (2021: HK\$971,000).

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 31 December 2022, the balance of issued ordinary shares was 6,156,928,860.

The Group finances its working capital requirements through a combination of funds generated from operations and borrowings.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the total shareholders' funds of the Group amounted to approximately HK\$1,616,997,000 (31 December 2021: HK\$2,224,046,000), the total assets of approximately HK\$1,979,687,000 (31 December 2021: HK\$2,769,720,000) and the total liabilities of approximately HK\$362,690,000 (31 December 2021: HK\$545,674,000).

As at 31 December 2022, the Group had bank balances, time deposits and cash of approximately HK\$162,948,000 (31 December 2021: HK\$297,190,000) and the pledged bank deposits of approximately HK\$894,000 (31 December 2021: HK\$1,679,000). The gearing ratio as of 31 December 2022, is calculated as net debt divided by total capital, defined as the percentage of the total interest-bearing debt, including lease liabilities and bank borrowings of approximately HK\$318,000 (31 December 2021: HK\$957,000) and HK\$141,422,000 (31 December 2021: HK\$177,997,000), respectively to total capital, was not applicable (31 December 2021: Nil) due to net cash.

As at 31 December 2022, the Group's total bank borrowings of approximately HK\$141,422,000 (31 December 2021: HK\$177,997,000), of which approximately HK\$22,562,000 (31 December 2021: HK\$24,490,000) and HK\$118,860,000 (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 6.35% to 7.35% (31 December 2021: 6.7% to 7.4%) per annum.

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

PLEDGE OF ASSETS

As at 31 December 2022, the right-of-use assets amounted to HK\$73,320,000 (2021: HK\$82,003,000) and construction-in-progress amounted to HK\$437,400,000 (2021: HK\$446,905,000) were pledged for the Group's bank borrowings. The bank deposits amounted to HK\$894,000 as at 31 December 2022 (2021: HK\$1,679,000) were pledged for the construction work and service contracts.

CONTINGENT LIABILITIES

As at 31 December 2022, a claim was lodged against two subsidiaries of the Group, in relation to unpaid contract work amount together with interest for the construction in progress of approximately HK\$17,680,000, by a construction subcontractor. The Group has contested the claim, and while the final outcome of the proceedings is uncertain, it is the directors' opinion that the ultimate liability after accrued construction costs for the contract work, if any, will not have a material impact on the Group's financial position.

Save for disclosed above, the Group had no other material contingent liabilities as at 31 December 2022.

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, which listed on the Shenzhen Stock exchange, 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 in 2021**”) 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 in 2021, 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 2021 in other comprehensive income for the year ended 31 December 2021.

KCT declared dividend of RMB1.35 per every 10 KCT shares on 23 November 2022 and the Company received approximately RMB7,598,000 (equivalent to HK\$8,819,000) on 23 December 2022.

As at 31 December 2022, the Group held 56,282,860 ordinary shares of KCT, which represented approximately 2.61% of the KCT issued shares. As at 31 December 2022, the carrying amount of the share of KCT is HK\$1,080,646,000 (31 December 2021: HK\$1,654,730,000, after KCT Disposal in 2021), which represented 54.6% (31 December 2021: 59.7%, after KCT Disposal in 2021) of the total assets of the Group.

For the year ended 31 December 2022, the fair value loss, net of tax of HK\$377.2 million (2021 fair value gain, net of tax: HK\$157.9 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 Year.

EVENT AFTER THE REPORTING YEAR

The Group disposed of a total of 5,935,600 KCT shares (“**KCT Disposal in 2023**”) on the open market through a series of transactions after the Year and up to the date of this announcement, at the aggregate consideration of approximately RMB107,539,017. The average selling price of disposal of KCT shares was approximately RMB18.12. After the KCT Disposal in 2023, the estimated sale proceeds will be approximately RMB107,539,017 (HK\$125,044,805), the Group currently expects to recognise a fair value gain of approximately RMB6,515,000 (HK\$7,576,000) for the KCT Disposal in 2023 in other comprehensive income for the year 2023. Upon the completion of the KCT Disposal in 2023, the Group directly held 50,347,260 ordinary shares of KCT, representing approximately 2.34% of the total issued capital of KCT.

Save as disclosed above, there was no material event occurred after the Year.

FUTURE PLANS FOR MATERIAL INVESTMENT

The Group has no plan for any material investments or additions of capital assets as at the date of this announcement.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group had approximately 67 employees (2021: 90 employees). The Group provides competitive remuneration packages to employees with the share option scheme and the restricted shares award scheme. The Group also provides attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

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 enhance the shareholders’ value and safeguard the interests of the shareholders. Accordingly, the Company has adopted sound corporate governance principles that emphasise effective internal control and accountability to all shareholders.

The Board is responsible for performing the corporate governance functions with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the “**CG Code**”). During the year under review, the Board reviewed the Company’s corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company’s policies and practices on compliance with legal and regulatory requirements, the compliance of the Company’s code of conduct, and the Company’s compliance with the Code Provision and disclosure in the Corporate Governance Report.

Save as the deviation from the code provisions C.5.1. and F.2.2 of the CG Code, the Company has complied with the CG Code during the year under review.

Code provision C.5.1 of the CG Code stipulates that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During the year, a total of three regular meetings of the Board were held across the year. The Board considers that the three meetings were sufficient to deal with matters of the Company. Apart from Board meetings, consent of directors on issues was also sought through circulating resolutions in writing.

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 executive Director of the Company, took the chair of that meeting to answer questions to ensure effective communication with the shareholders at the meeting.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the year ended 31 December 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

DIVIDEND

No dividend was paid, declared or proposed during the year ended 31 December 2022, nor had any dividend been proposed for the year ended 31 December 2022 (year ended 31 December 2021: Nil).

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (“**Model Code**”) as its model code for securities transactions by Directors. Having made specific enquiries, all the Directors confirmed that they had complied with the Model Code during the year ended 31 December 2022.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company (“**Audit Committee**”) comprises three independent non-executive directors of the Company. The Audit Committee has adopted terms of reference which are in line with the CG Code. The Audit Committee has reviewed the Group’s audited results for the year ended 31 December 2022 and agreed with the accounting treatment adopted. The Audit Committee is satisfied with the Group’s internal control procedures and financial reporting disclosures.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2022. Also, the figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been compared and agreed by the Company’s external auditor, RSM Hong Kong, to the amounts set out in the audited consolidated financial statements of the Group for the year ended 31 December 2022. The work performed by RSM Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM Hong Kong on this results announcement.

PUBLICATION OF THE 2022 ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.kuangchiscience.com), respectively. The Company will dispatch the annual report of the Company for the year ended 31 December 2022 to the shareholders of the Company in due course, which will also be published on the websites of the Company and the Stock Exchange.

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

Hong Kong, 30 March 2023

As at the date of this announcement, the board of directors 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.