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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 2020**

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 2020 together with the comparative figures for the same period in 2019.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

		2020	2019
	Note	HK\$'000	HK\$'000
<b>Continuing operations</b>			
Revenue	4	99,478	60,822
Cost of sales		<u>(60,902)</u>	<u>(51,009)</u>
<b>Gross profit</b>		<b>38,576</b>	<b>9,813</b>
Other income	5	9,450	8,941
Other gains, net	5	14,804	4,824
Impairment loss on trade receivables		(388)	(32,595)
(Impairment loss)/reversal of impairment loss on contract assets	6	(10,484)	329
Impairment loss on investments in associates		–	(38,767)
Selling and distribution expenses		(19,544)	(23,562)
Research and development expenses		(41,719)	(95,155)
Administrative expenses		<u>(35,911)</u>	<u>(77,759)</u>
<b>Operating loss</b>	6	<b>(45,216)</b>	<b>(243,931)</b>
Finance income		1,007	1,340
Finance costs		<u>(33,009)</u>	<u>(22,623)</u>
Finance costs, net	7	(32,002)	(21,283)
Share of results of associates		<u>–</u>	<u>(27,900)</u>
<b>Loss before tax</b>		<b>(77,218)</b>	<b>(293,114)</b>
Income tax expense	8	<u>(59)</u>	<u>–</u>
<b>Loss from continuing operations</b>		<b>(77,277)</b>	<b>(293,114)</b>
Loss from discontinued operation		<u>(2,092)</u>	<u>(613)</u>
<b>Loss for the year</b>		<b><u>(79,369)</u></b>	<b><u>(293,727)</u></b>

		<b>2020</b>	2019
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
(Loss)/profit for the year attributable to:			
Owners of the Company		<b>(78,348)</b>	(294,436)
Non-controlling interests		<u><b>(1,021)</b></u>	<u>709</u>
		<u><b>(79,369)</b></u>	<u>(293,727)</u>
(Loss)/profit for the year from continuing operations attributable to:			
Owners of the Company		<b>(77,249)</b>	(294,117)
Non-controlling interests		<u><b>(28)</b></u>	<u>1,003</u>
		<u><b>(77,277)</b></u>	<u>(293,114)</u>
Loss for the year from discontinued operation attributable to:			
Owners of the Company		<b>(1,099)</b>	(319)
Non-controlling interests		<u><b>(993)</b></u>	<u>(294)</u>
		<u><b>(2,092)</b></u>	<u>(613)</u>
<b>Loss per share</b>			
<b>From continuing and discontinued operations</b>			
Basic (HK cents per share)	9	<b>(1.27)</b>	(4.78)
Diluted (HK cents per share)	9	<b>(1.27)</b>	(4.78)
<b>From continuing operations</b>			
Basic (HK cents per share)	9	<b>(1.25)</b>	(4.78)
Diluted (HK cents per share)	9	<u><b>(1.25)</b></u>	<u>(4.78)</u>

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>Loss for the year</b>		<b>(79,369)</b>	<b>(293,727)</b>
<b>Other comprehensive income/(loss)</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Release of reserve upon deregistration of subsidiaries		(138)	(93)
Release of reserve upon disposal of a subsidiary		2	–
Exchange differences on translation of foreign operations		43,381	(14,388)
		<u>43,245</u>	<u>(14,481)</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	11	1,116,841	(84,328)
Income tax relating to fair value change of financial assets through other comprehensive income		(167,527)	8,993
		<u>949,314</u>	<u>(75,335)</u>
Other comprehensive income/(loss), net of tax		<u>992,559</u>	<u>(89,816)</u>
<b>Total comprehensive income/(loss) for the year</b>		<b><u>913,190</u></b>	<b><u>(383,543)</u></b>
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		914,211	(383,729)
Non-controlling interests		(1,021)	186
		<u>913,190</u>	<u>(383,543)</u>
Total comprehensive income/(loss) attributable to owners of the Company arising from:			
Continuing operations		915,310	(382,843)
Discontinued operation		(1,099)	(886)
		<u>914,211</u>	<u>(383,729)</u>
Total comprehensive income/(loss) attributable to the non-controlling interests arising from:			
Continuing operations		(28)	1,003
Discontinued operation		(993)	(817)
		<u>(1,021)</u>	<u>186</u>

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*At 31 December 2020*

	<i>Note</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>415,115</b>	380,264
Intangible assets and goodwill		<b>68</b>	5,023
Investments in associates		–	–
Financial assets at fair value through other comprehensive income	<i>11</i>	<b>1,896,926</b>	731,390
Right-of-use assets		<b>157,913</b>	157,729
Long-term deposits and prepayments		<b>1,192</b>	1,118
Total non-current assets		<b>2,471,214</b>	1,275,524
<b>CURRENT ASSETS</b>			
Inventories		<b>15,172</b>	1,406
Contract assets		<b>11,884</b>	14,281
Trade and other receivables	<i>12</i>	<b>194,574</b>	304,953
Loans receivables		–	–
Pledged bank deposits		<b>2,388</b>	193
Cash and cash equivalents		<b>147,812</b>	245,879
Total current assets		<b>371,830</b>	566,712
<b>Total assets</b>		<b>2,843,044</b>	1,842,236
<b>EQUITY</b>			
Share capital		<b>61,569</b>	61,569
Other reserves		<b>2,413,768</b>	1,421,209
Accumulated losses		<b>(537,050)</b>	(458,702)
Equity attributable to owners of the Company		<b>1,938,287</b>	1,024,076
Non-controlling interests		<b>(2)</b>	24,296
<b>Total equity</b>		<b>1,938,285</b>	1,048,372

		2020	2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities		378	554
Bank borrowings		169,066	157,980
Deferred income tax liabilities		<u>230,903</u>	<u>59,421</u>
Total non-current liabilities		<u>400,347</u>	<u>217,955</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	136,699	182,166
Contract liabilities		4,501	7,872
Lease liabilities		752	1,212
Bank and other borrowings		327,773	346,425
Deferred government grants		21,642	26,004
Income tax payable		<u>13,045</u>	<u>12,230</u>
Total current liabilities		<u>504,412</u>	<u>575,909</u>
<b>Total liabilities</b>		<u>904,759</u>	<u>793,864</u>
<b>Total equity and liabilities</b>		<u><b>2,843,044</b></u>	<u><b>1,842,236</b></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 1 GENERAL INFORMATION

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

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

## 2 GOING CONCERN

The Group incurred a loss of HK\$79,369,000 for the year ended 31 December 2020 and as of that date, the Group’s current liabilities exceeded its current assets by HK\$132,582,000 and had net debt of HK\$347,769,000. 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.

Subsequent to the reporting period, the Group disposed of certain of its financial assets at fair value through other comprehensive income for a total consideration of RMB385,718,000 (equivalent to HK\$459,737,000). The disposal proceeds were used for repayment of other borrowings and working capital purpose. In this connection and 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 APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

- (a) The Group has applied the following amendments to HKFRSs for the first time for their annual reporting period commencing 1 January 2020:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of these amendments to HKFRSs did not have significant impact on the consolidated financial statements.

- (b) The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	<i>Insurance Contracts and the related Amendments</i> <sup>1</sup>
Amendment to HKFRS 16	<i>Covid-19 – Related Rent Concessions</i> <sup>4</sup>
Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> <sup>2</sup>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i> <sup>5</sup>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)</i> <sup>1</sup>
Amendments to HKAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i> <sup>2</sup>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> <sup>2</sup>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2018-2020</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2020.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2021.

The Directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.



#### 4 REVENUE AND SEGMENT REPORTING

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>From continuing operations</b>		
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Disaggregated by major products or service lines		
Revenue recognised at a point in time		
– Sales of wearable smart helmets	63,421	–
– Sales of chips	–	7,311
– Provision of procurement services	10,118	6,663
Revenue recognised over time		
– Sales of artificial intelligent coverage system and related products	25,939	46,848
	<u>99,478</u>	<u>60,822</u>

#### (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 People’s Republic of China (excluding Hong Kong) (the “**PRC**”) 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.

	<b>Revenue from external customers</b>		<b>Non-current assets*</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>HK\$’000</b>	<b>HK\$’000</b>	<b>HK\$’000</b>	<b>HK\$’000</b>
PRC	<b>68,543</b>	46,848	<b>574,147</b>	543,425
Hong Kong	<b>10,118</b>	13,974	<b>141</b>	709
The Middle East	<b>14,486</b>	–	–	–
Others	<b>6,331</b>	–	–	–
	<b>99,478</b>	60,822	<b>574,288</b>	544,134

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

### *Information about major customers*

Revenues from customers contributing 10% or more of the total revenue of the Group for the years ended 31 December 2020 and 2019:

	<b>2020</b>	<b>2019</b>
	<b>HK\$’000</b>	<b>HK\$’000</b>
Customer 1	<b>15,291</b>	N/A <sup>#</sup>
Customer 2	<b>N/A<sup>#</sup></b>	7,311
Customer 3	<b>N/A<sup>#</sup></b>	23,563
Customer 4	<b>N/A<sup>#</sup></b>	11,502
Customer 5	<b>N/A<sup>#</sup></b>	6,663

<sup>#</sup> *The corresponding revenue did not contribute 10% or more of the total revenue of the Group.*

## 5 OTHER INCOME AND OTHER GAINS, NET

	2020 HK\$'000	2019 HK\$'000
<b>Other income</b>		
<b>From continuing operations</b>		
Government grants	6,707	3,612
Consultancy service income	226	1,636
Sales of scrap materials	–	471
Sundry income	2,517	3,222
	<u>9,450</u>	<u>8,941</u>
<b>Other gains, net</b>		
<b>From continuing operations</b>		
Exchange loss, net	1,970	(1,231)
Loss on disposal of plant and equipment	–	(25)
Gain on disposal of a subsidiary	12,749	–
Gain on deemed partial disposal of associates	–	5,987
Gain on deregistration of subsidiaries ( <i>note</i> )	138	93
Others	(53)	–
	<u>14,804</u>	<u>4,824</u>

*Note:*

The gain on deregistration of subsidiaries of HK\$138,000 (2019: HK\$93,000) for the year ended 31 December 2020 represented the release of exchange reserve arising from translating these subsidiaries' financial statements to profit or loss upon their deregistrations.

## 6 OPERATING LOSS

Operating loss has been arrived at after charging:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>From continuing operations</b>		
Employee benefit expenses	44,887	95,453
Cost of inventories sold	53,419	48,056
Cost of services	7,483	2,953
Amortisation of intangible assets	4,992	5,043
Amortisation of right-of-use assets	10,254	11,233
Auditor's remuneration		
– Audit services for the year	1,760	1,792
Depreciation of property, plant and equipment	3,941	10,233
Lease payments not included in the measurement of lease liabilities	7,078	11,052
Impairment loss on trade receivables	388	32,595
Impairment loss/(reversal of impairment loss) on contract assets ( <i>note</i> )	10,484	(329)
Impairment loss on prepayment and other receivables	–	1,376
Impairment loss on property, plant and equipment	–	3,200
Impairment loss on right-of-use assets	–	7,253
Impairment loss on investment in associates	–	38,767

*Note:*

During the year ended 31 December 2020, the Group encountered difficulties in recovering from a customer for the work performed. The Directors of the Company considered that full impairment loss of HK\$10,293,000 in relation to the contract assets arising from the contract with this customer should be made in the year ended 31 December 2020.

## 7 FINANCE COSTS, NET

	2020 HK\$'000	2019 HK\$'000
<b>From continuing operations</b>		
<b>Finance income</b>		
Interest income:		
– Short term and time deposits	1,007	1,179
– Loan to related parties	–	161
	<u>1,007</u>	<u>1,340</u>
<b>Finance income</b>	<b>1,007</b>	<b>1,340</b>
<b>Finance costs</b>		
Interest expenses:		
– Lease liabilities	(113)	(154)
– Bank and other borrowings	(33,578)	(33,416)
	<u>(33,691)</u>	<u>(33,570)</u>
Amounts capitalised into construction in progress	682	10,947
	<u>(33,009)</u>	<u>(22,623)</u>
<b>Finance costs, net</b>	<b>(32,002)</b>	<b>(21,283)</b>

## 8 INCOME TAX EXPENSE

	2020 HK\$'000	2019 HK\$'000
<b>From continuing operations</b>		
Current income tax		
PRC Corporate Income Tax		
– Under-provision in prior years	59	–
	<u>59</u>	<u>–</u>

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for the year (2019: 16.5%). No Hong Kong profits tax has been provided for both years as the Group has no assessable profits derived in Hong Kong.

PRC subsidiaries are subject to PRC Corporate Income Tax (“CIT”) at 25% except for two PRC subsidiaries established in Qianhai that are subject to a reduced preferential CIT rate of 15% and another PRC subsidiary with High and New Technology Enterprise Certificate that is subject to a reduced preferential CIT rate of 15% for 3 years from 2016 to 2019 according to the applicable CIT Law. Such PRC subsidiary had successfully renewed its High and New Technology Enterprise Certificate to 2022.

## 9 LOSS PER SHARE

### (a) From continuing operations

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

Loss figures are calculated as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss for the year attributable to owners of the Company	(78,348)	(294,436)
Add: Loss for the year from discontinued operation	<u>1,099</u>	<u>319</u>
Loss for the purpose of basic and diluted loss per share from continuing operations	<u>(77,249)</u>	<u>(294,117)</u>

Number of shares:

	2020 <i>'000</i>	2019 <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic loss per share	6,156,929	6,156,929
Effect of dilutive potential ordinary shares	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u>6,156,929</u>	<u>6,156,929</u>

For the year ended 31 December 2020, diluted loss per share is the same as basic loss per share as the Company does not have diluted potential ordinary shares.

For the year ended 31 December 2019, the computation of diluted loss per share does not assume the exercise of the outstanding shares options issued since the assumed exercise would result in a decrease in loss per share.

**(b) From continuing and discontinued operations**

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

*Loss figures*

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss for the year attributable to owners of the Company	<u>(78,348)</u>	<u>(294,436)</u>

For the number of shares used in the computation of basic and diluted loss per share please refer to note 9(a).

For the year ended 31 December 2020, diluted loss per share is the same as basis loss per share as the Company does not have diluted potential ordinary shares.

For the year ended 31 December 2019, the computation of diluted loss per share does not assume the exercise of the outstanding shares options issued since the assumed exercise would result in a decrease in loss per share.

**(c) From discontinued operation**

Basic and diluted loss per share from the discontinued operation is HK0.02 cents (2019: basic and diluted loss per share from the discontinued operation of HK0.005 cents), which is calculated based on the loss for the year attributable to owners of the Company from the discontinued operation of HK\$1,099,000 (2019: loss of HK\$319,000) and the weighted average number of 6,156,929,000 shares (2019: 6,156,929,000 shares).

For the year ended 31 December 2020, diluted loss per share is the same as basic loss per share as the Company does not have diluted potential ordinary shares.

For the year ended 31 December 2019, the computations of diluted loss per share does not assume the exercise of the outstanding shares options issued since the assumed exercise would result in a decrease in loss per share.

**10 DIVIDEND**

No dividend was paid or proposed during the year ended 31 December 2020, nor has any dividend been proposed since the end of the reporting period (2019: Nil).

**11 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

As at 31 December 2020, the Group hold 71,528,751 (2019: 71,528,751) ordinary shares of Kuang-Chi Technologies Co., Ltd. (“KCT”), representing 3.32% (2019: 3.32%) of the issued ordinary shares 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 fair value through other comprehensive income 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.

## 12 TRADE AND OTHER RECEIVABLES

		2020	2019
	Note	HK\$'000	HK\$'000
Trade receivables		222,010	330,492
Less: allowance for expected credit loss		(56,721)	(57,600)
Trade receivables, net	(a)	165,289	272,892
Deposits and other receivables		4,141	3,326
Consideration receivable		15	–
Prepayments to suppliers		1,237	13,477
Other prepayments		11,374	4,603
Value-added tax and other tax recoverable		13,710	11,773
		195,766	306,071
Less: non-current portion		(1,192)	(1,118)
		194,574	304,953

The Group did not hold any collateral over these balances (2019: Nil).

Note:

- (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 2020 and 2019:

	2020	2019
	HK\$'000	HK\$'000
0 to 90 days	162,906	171,730
91 to 180 days	–	77
181 to 365 days	64	35,549
1 to 2 years	2,319	13,625
2 to 3 years	–	43,135
Over 3 years	–	8,776
	165,289	272,892



## 13 TRADE AND OTHER PAYABLES

		2020	2019
	Note	HK\$'000	HK\$'000
Trade payables	(a)	31,817	22,127
Accrued employee benefits		6,353	12,240
Value-added tax and other tax payables		7,786	6,693
Other payables and accruals		30,063	34,131
Consideration payable for acquisition of subsidiaries		–	49,070
Accrued construction costs		60,680	57,905
		<u>136,699</u>	<u>182,166</u>

Note:

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

	2020	2019
	HK\$'000	HK\$'000
0 to 90 days	195	6,869
91 to 365 days	22,064	1,070
Over 1 year	9,558	14,188
	<u>31,817</u>	<u>22,127</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 timeframe.

## 14 EVENTS AFTER THE REPORTING PERIOD

- (a) During the period from 20 January 2021 to 8 February 2021, the Group disposed of 15,245,891 ordinary shares of KCT on the open market through a series of transactions. The aggregate consideration on the disposal was RMB385,718,000 (equivalent to HK\$459,737,000).
- (b) On 7 February 2021, the Group entered into a sale and purchase agreement with a vendor pursuant to which the Group agreed to acquire and the vendor agreed to sell the entire equity interest of Bloom Gain Holdings Limited (“Bloom Gain”) and its subsidiaries at a cash consideration of HK\$52,000,000. The acquisition has not been completed up to the date of approval of these consolidated financial statements. Bloom Gain and its subsidiaries do not carry out any business and the sole purpose of acquiring the shares of Bloom Gain is to acquire a property held by its subsidiary in Shanghai, PRC.

## 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 12 months ended 31 December 2020 (the “**Period**”), the Group recorded a total revenue of approximately HK\$99 million and a net loss of approximately HK\$79 million. The gross margin of the Group rose from 16.1% for the year ended 31 December 2019 (“**FY2019**”) to 38.8% for the Period. The substantial increase in gross profit rate was attributable to the new anti-COVID smart helmet launched by the Group during the Period, whose sales accounted for 63.8% of the revenue for the Period. Moreover, the Group optimised its business operations and strengthened internal management, which greatly reduced its related expenses and administrative expenses.

### Vertically Cultivate the Fields of Education and Police Related Business

The Group has long been committed to the research and development of “AI” technology-related algorithms, a platform for big data analysis and professional AI-infused products for vertical industries based on these algorithms and platform. The Group’s AI algorithms were applied to aviation equipment such as Cloud and long-endurance drones in the early days, and later developed into the core business, creating an AI system with AI algorithm technology as its hit product. The AI system can be connected to a variety of fixed and mobile front-end hardware devices and empower them with AI. On this basis and with its long-term experience in system integration, the Company has integrated front-end hardware to develop integrated solutions, covering professional system integration, installation, debugging, operation and maintenance services. Our “AI” technology-infused products have been playing a significant role in real-world scenarios. During the Period, the Group gradually expanded the application of relevant products in certain vertical fields.

During the Period, in order to help fighting the COVID-19 outbreak, the Group responded quickly. Based on the experiences accumulated in AI technology over the years, it further innovated Algorithms and software leveraging on the “smart helmet” hardware customised through a related party and launched an anti-COVID smart helmet. Integrated with infrared thermal imaging and empowered by its AI technology, the device is capable of capturing temperature efficiently on a real-time dynamic basis and intelligent big data analysis, featuring non-contact remote temperature measurement and quickscreening of people with a fever. It can patrol fevered-people at super high efficiency with insensible mobility, and is characteristic of being portable, non-disturbing, unnecessary to deploy, and mobile. During the Period, this product was quickly proved itself useful and reliable in places with high density of pedestrian traffic, wide range of coverage and assembly points of large groups. Therefore, this product was purchased by many customers as an epidemic prevention tool and sold to 41 countries and regions at home and abroad.

At the same time, in view of the fact that the anti-COVID smart helmet has been well received in many places when epidemic prevention and control become normal, the Group is building an anti-COVID health information system for teachers and students in schools run by Shenzhen municipality based on the application of the anti-COVID smart helmet on campuses. Through collecting health big data, establishing on-campus epidemic records, it can improve the early warning mechanism for campus public health. By providing back-office live broadcast, remote command and other functions, the system can meet the needs for real-time coordination and remote management between competent authorities and schools, thus building a strong line of defense for campus safety. In the meantime, to strengthen public safety, the Group also further promoted and expanded the market based on the existing products and systems. The police smart helmet was widely praised at the police equipment expo in November 2020, and it was also recommended and promoted by public security departments for application. Pilot deployments were carried out in various places, including Beijing, Guangdong, Chongqing, Jiangsu and others. It significantly improved the functioning efficiency of relevant personnel. As the Group's wearable smart products are being promoted to vertical fields such as public safety and education, the Group is also accelerating the research and development of other smart products.

The management believes that with the development of 5G network, Internet of things, and cloud computing technologies, the Company's AI technology will be gradually applied to more vertical industries based on its development objectives and industrial needs, and be used to develop more application products according to users' pain points and needs. There will be extensive application needs and great market prospects for AI technology in related fields.

### **Impairment losses on trade receivables and contract assets**

With reference to the Group's 2019 Annual Report ("**2019 Annual Report**") and 2020 Interim Report ("**2020 Interim Report**"), details about the impairment losses on trade receivables and contract assets are updated as follows:

For the customer located in Chengdu, the People's Republic of China ("**PRC**") ("**Chengdu Customer**"), our project team conducted several rounds of negotiations with, and managed to collect RMB45.0 million (equivalent to HK\$50.3 million) from the Chengdu Customer in the first half of 2020. The management will continue to maintain dialogue with this customer and negotiate with this customer on possible repayment options.

For the customer located in Dongguan and another customer located in Guizhou, the PRC, their business operations were generally affected by the COVID-19 pandemic during the Period. Moreover, the partial lockdown measures imposed in those regions to prevent the spread of COVID-19 made it harder for the management to negotiate with the customers in Dongguan and Guizhou. Meanwhile, these customers made great changes to their business strategies and reduced investment in related fields, so our negotiation and communication with them during the Period failed to generate plans to recover the receivables concerned.

Since the outstanding amounts due from the customers in Dongguan and Guizhou were not yet settled during the Period, accordingly, the Group continued to retain a full impairment provision for the relevant trade receivables and contract assets.

## **FINANCIAL REVIEW**

### **Revenue and operating performance**

The Group's revenue increased from approximately HK\$60.8 million for FY2019 to approximately HK\$99.5 million for the Period, an increase of approximately HK\$38.7 million or 63.7%. The increase was mainly due to the increase in revenue generated from the Group's AI technology products including the new anti-COVID smart helmet launched by the Group during the Period.

The net loss of the Group decreased by approximately HK\$214.3 million or 73% from approximately HK\$293.7 million for FY2019 to approximately HK\$79.4 million for the Period. The decrease is mainly due to: (i) the decrease in impairment losses on trade receivables and investment in associates; (ii) a significant decrease of approximately HK\$99.3 million in expenses compared with FY2019.

### **Manpower development**

With regard to staff development, the Company strengthened the talent training system and innovated in personnel development system to enhance staff quality. The Group will uphold the key strategy of attracting and nurturing high-calibre employees, and introduce high-tech talents in AI and other related fields from around the world. As at 31 December 2020, the Group had 110 employees, of whom approximately 19.1% have a master's degree or above. They lay a solid foundation for the further development of the Group.

## **CAPITAL STRUCTURE**

On 30 September 2015, the Board of Company announced that the Company will cancel a total of 67,537,000 share options granted to certain Directors and employees of the Company and its subsidiaries on 26 August 2014 and the Company will conditionally grant 67,537,000 new share options as replacement options to the relevant grantees. On the same day, the Board of the Company further announced that the Company will conditionally grant 70,000,000 new share options to certain Directors and employees of the Company and its subsidiaries under the share option scheme adopted by the Company on 31 July 2012.

No share option scheme was launched for the year ended 31 December 2020. As at 31 December 2020, 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. The Group had cash and bank balance of HK\$147,812,000 as at 31 December 2020, a decrease of HK\$98,067,000 as compared to 31 December 2019.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2020, the total shareholders' funds of the Group amounted to approximately HK\$1,938,285,000 (31 December 2019: HK\$1,048,372,000), the total assets of approximately HK\$2,843,044,000 (31 December 2019: HK\$1,842,236,000) and the total liabilities of approximately HK\$904,759,000 (31 December 2019: HK\$793,864,000).

As at 31 December 2020, the Group had bank balances and cash of approximately HK\$147,812,000 (31 December 2019: HK\$245,879,000) and the pledged bank deposits of approximately HK\$2,388,000 (31 December 2019: HK\$193,000). The gearing ratio as of 31 December 2020, defined as the percentage of the total interest-bearing debt, including lease liabilities and bank and other borrowings of approximately HK\$1,130,000 (31 December 2019: HK\$1,766,000) and HK\$496,839,000 (31 December 2019: HK\$504,405,000), respectively to net asset value, was approximately 25.70% (31 December 2019: 48.28%).

As at 31 December 2020, the total available banking facilities granted to the Group were HK\$325,317,000 (2019: HK\$316,186,000), of which HK\$144,332,000 (2019: HK\$147,031,000) were unutilised.

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 activities to reduce the exchange risk.

## **PLEDGE OF ASSETS**

As at 31 December 2020, the right-of-use assets amounted to HK\$82,174,000 (2019: HK\$79,251,000) and construction-in-progress amounted to HK\$401,385,000 (2019: HK\$363,659,000) were pledged for the Group's bank borrowings. The bank deposits amounted to HK\$2,388,000 as at 31 December 2020 (2019: HK\$193,000) were pledged for the construction work and service contracts.

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

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

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 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 directors of the Company consider 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. For the year ended 31 December 2020, the fair value gain of HK\$1,116.8 million (2019 fair value loss: HK\$60.0 million) was recognised in other comprehensive income.

## **EVENT AFTER THE REPORTING YEAR**

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 estimated sale proceeds will be approximately RMB385,718,000 (HK\$459,737,000), the Group currently expects to recognize a fair value gain of approximately RMB46,500,000 (HK\$55,423,000) for the KCT Disposal in other comprehensive income for the year 2021. Upon the completion of the KCT Disposal, the Group directly held 56,282,860 ordinary shares of KCT, representing approximately 2.61% of the total issued capital of KCT.

On 7 February 2021, the Group entered into a sale and purchase agreement for the purpose of acquiring a property in Shanghai, PRC. For more details, please refer to note 14 to the consolidated financial statements.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 31 December 2020, the Group had approximately 110 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 emphasis 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 this Corporate Governance Report.



Save as the deviation from the code provision E.1.2 of the CG Code, the Company has complied with the CG Code during the year under review.

Code provision E.1.2 of the CG Code stipulate 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 29 June 2020 due to other business commitments.

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

During the year ended 31 December 2020, 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 2020, nor had any dividend been proposed for the year ended 31 December 2020 (year ended 31 December 2019: 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 2020.

## **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 2020 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 2020. Also, the figures in respect of this results announcement have been compared by the Company's external auditors, Crowe (HK) CPA Limited, to the amounts set out in the consolidated financial statements of the Group for the year ended 31 December 2020. The work performed by Crowe (HK) CPA Limited 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 Crowe (HK) CPA Limited on this results announcement.

## PUBLICATION OF THE 2020 ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.kuangchiscience.com](http://www.kuangchiscience.com)), respectively. The Company will dispatch the annual report of the Company for the year ended 31 December 2020 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 2021

*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.*