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KUANGCHI SCIENCE LIMITED

光啟科學有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

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 2021 (the “**Period**”) together with the comparative figures for the same period in 2020 (the “**Comparative Period**”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

| | | Six months ended 30 June | |
|--|--------------|---------------------------------|--------------------|
| | | 2021 | 2020 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (unaudited) | (unaudited) |
| Continuing Operations | | | |
| Revenue | 6 | 14,812 | 61,379 |
| Cost of sales | | <u>(7,878)</u> | <u>(43,567)</u> |
| Gross profit | | 6,934 | 17,812 |
| Other income | 7 | 1,600 | 1,093 |
| Other gains/(losses), net | 8 | 2,674 | (95) |
| Reversal of impairment on other receivables | | 14 | – |
| Reversal of impairment loss on trade receivables | | 3,376 | 27,750 |
| Impairment loss on contract assets | | (4) | – |
| Selling and distribution expenses | | (9,074) | (8,606) |
| Research and development expenses | | (7,913) | (13,683) |
| Administrative expenses | | <u>(13,368)</u> | <u>(24,283)</u> |
| Operating loss | | (15,761) | (12) |
| Finance income | | 1,625 | 226 |
| Finance costs | | <u>(143)</u> | <u>(11,000)</u> |
| Finance costs, net | | <u>1,482</u> | <u>(10,774)</u> |
| Loss before tax | | (14,279) | (10,786) |
| Income tax expense | 10 | <u>–</u> | <u>(636)</u> |
| Loss from continuing operations | | (14,279) | (11,422) |
| Loss from discontinued operation | 12 | <u>–</u> | <u>(195)</u> |
| Loss for the period | | <u>(14,279)</u> | <u>(11,617)</u> |

| | | Six months ended 30 June | |
|---|--------------|---------------------------------|------------------------|
| | | 2021 | 2020 |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| | | (unaudited) | (unaudited) |
| Loss for the period from continuing operations attributable to: | | | |
| Owners of the Company | | (14,279) | (11,347) |
| Non-controlling interests | | <u>–</u> | <u>(75)</u> |
| | | <u>(14,279)</u> | <u>(11,422)</u> |
| Loss for the period from discontinued operations attributable to: | | | |
| Owners of the Company | | – | (101) |
| Non-controlling interests | | <u>–</u> | <u>(94)</u> |
| | | <u>–</u> | <u>(195)</u> |
| Loss for the period attributable to: | | | |
| Owners of the Company | | (14,279) | (11,448) |
| Non-controlling interests | | <u>–</u> | <u>(169)</u> |
| | | <u>(14,279)</u> | <u>(11,617)</u> |
| Loss per share | | | |
| From continuing and discontinued operations | | | |
| Basic (HK cents per share) | <i>13</i> | (0.23) | (0.19) |
| Diluted (HK cents per share) | <i>13</i> | (0.23) | (0.19) |
| From continuing operations | | | |
| Basic (HK cents per share) | <i>13</i> | (0.23) | (0.18) |
| Diluted (HK cents per share) | <i>13</i> | <u>(0.23)</u> | <u>(0.18)</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 2021

| | Six months ended 30 June | |
|---|---------------------------------|-----------------|
| | 2021 | 2020 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Loss for the period | (14,279) | (11,617) |
| Other comprehensive loss | | |
| <i>Items that may be reclassified to profit or loss:</i> | | |
| Exchange differences on translating foreign operations | (5,577) | (9,036) |
| <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 | (82,744) | (126,972) |
| Gains on disposal of financial assets at fair value through other comprehensive income | 48,061 | – |
| Other comprehensive loss, net of tax | (40,260) | (136,008) |
| Total comprehensive loss for the period | (54,539) | (147,625) |
| Total comprehensive loss for the period attributable to: | | |
| Owners of the Company | (54,539) | (147,271) |
| Non-controlling interests | – | (354) |
| | (54,539) | (147,625) |

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 2021

| | | 30 June 2021 | 31 December 2020 |
|--|--------------|--------------------------------|------------------------------|
| | <i>Notes</i> | <i>HK\$'000</i> (unaudited) | <i>HK\$'000</i> (audited) |
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | <i>14</i> | 430,569 | 415,115 |
| Right-of-use assets | | 204,346 | 157,913 |
| Intangible assets | | 498 | 68 |
| Financial assets at fair value through other comprehensive income | | 1,409,009 | 1,896,926 |
| Long-term deposits and prepayments | | 1,203 | 1,192 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 2,045,625 | 2,471,214 |
| CURRENT ASSETS | | | |
| Inventories | | 20,477 | 15,172 |
| Contract assets | | 12,153 | 11,884 |
| Trade and other receivables | <i>15</i> | 269,565 | 194,574 |
| Loan receivables | | – | – |
| Pledged bank deposits | | 1,648 | 2,388 |
| Cash and cash equivalents | | 101,542 | 147,812 |
| | | <hr/> | <hr/> |
| Total current assets | | 405,385 | 371,830 |
| | | <hr/> | <hr/> |
| Total assets | | 2,451,010 | 2,843,044 |

| | | 30 June | 31 December |
|--|--------------|-------------------------|-------------------------|
| | | 2021 | 2020 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (unaudited) | (audited) |
| EQUITY | | | |
| Share capital | | 61,569 | 61,569 |
| Other reserves | | 2,317,292 | 2,413,768 |
| Accumulated losses | | (494,804) | (537,050) |
| | | <hr/> | <hr/> |
| Equity attributable to owners of the Company | | 1,884,057 | 1,938,287 |
| Non-controlling interests | | (2) | (2) |
| | | <hr/> | <hr/> |
| Total equity | | <u>1,884,055</u> | <u>1,938,285</u> |
| LIABILITIES | | | |
| NON-CURRENT LIABILITIES | | | |
| Bank borrowings | <i>17</i> | 168,857 | 169,066 |
| Lease liabilities | | 289 | 378 |
| Deferred income tax liabilities | | 168,754 | 230,903 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | <u>337,900</u> | <u>400,347</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | <i>16</i> | 176,636 | 136,699 |
| Contract liabilities | | 5,137 | 4,501 |
| Lease liabilities | | 243 | 752 |
| Deferred government grants | | 21,843 | 21,642 |
| Income tax payable | | 13,166 | 13,045 |
| Bank and other borrowings | <i>17</i> | 12,030 | 327,773 |
| | | <hr/> | <hr/> |
| Total current liabilities | | <u>229,055</u> | <u>504,412</u> |
| Total liabilities | | <u>566,955</u> | <u>904,759</u> |
| Total equity and liabilities | | <u>2,451,010</u> | <u>2,843,044</u> |

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 2021

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.

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 2021. 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 2021 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 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by HKICPA.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the interim condensed consolidated financial information for the six months ended 30 June 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

(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 2021:

| | |
|---|--|
| Amendments to HKFRS 16 | COVID-19-Related Rent Concessions |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2 |

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 2021 and have not been early adopted:

| | |
|--|---|
| HKFRS 17 | Insurance contracts ⁽²⁾ |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current ⁽²⁾ |
| Amendments to HKAS 16 | Property, Plant and Equipment – Proceeds before intended use ⁽¹⁾ |
| Amendments to HKFRS 3 | References to the Conceptual Framework ⁽¹⁾ |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract ⁽¹⁾ |
| Amendments to HKFRS 9, HKFRS 16, HKAS 41 and HKFRS 1 | Annual Improvements to HKFRS Standards 2018-2020 ⁽¹⁾ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate and joint venture ⁽³⁾ |

⁽¹⁾ Effective for the Group for annual period beginning on 1 January 2022.

⁽²⁾ Effective for the Group for annual period beginning on 1 January 2023.

⁽³⁾ 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 2021, on the operations of the Group, and is yet to be in the position to conclude the impact.

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

4 ESTIMATES

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

In preparing the interim condensed consolidated financial information, the significant judgements made by management in applying the accounting policies of the Group and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

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 2020.

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 2021 and 31 December 2020 on a recurring basis:

| | Level 1 | Level 2 | Level 3 | Total |
|---|-------------------|-------------------|-------------------|-------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 30 June 2021 | | | | |
| Financial assets | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| – Listed equity security | 1,409,009 | – | – | 1,409,009 |
| – Unlisted equity securities | – | – | – | – |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

At 31 December 2020

| | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| Financial assets | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| – Listed equity security | 1,896,926 | – | – | 1,896,926 |
| – Unlisted equity securities | – | – | – | – |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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

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

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

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

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

(b) Valuation processes

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

6 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:

| | Unaudited | |
|---|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | HK\$’000 | HK\$’000 |
| From continuing operations | | |
| Revenue from contracts with customers | | |
| within the scope of HKFRS 15 | | |
| Disaggregated by major products or service lines | | |
| – Provision of procurement services | 2,121 | – |
| – Sale of artificial intelligent system and related products | 7,412 | 14,950 |
| – Sale of wearable smart helmets | 1,356 | 46,429 |
| – Provision of technical support services based on AI technology | 3,112 | – |
| – Rental income | 811 | – |
| | 14,812 | 61,379 |

(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.

| | Revenue from | | Non-current assets* | |
|--------------------------|---------------------------------|--------------------|----------------------------|--------------------|
| | external customers | | 30 June | 31 December |
| | Six months ended 30 June | | 2021 | 2020 |
| | 2021 | 2020 | 2021 | 2020 |
| | HK\$’000 | HK\$’000 | HK\$’000 | HK\$’000 |
| | (unaudited) | (unaudited) | (unaudited) | (audited) |
| PRC | 12,609 | 41,444 | 636,614 | 574,147 |
| Hong Kong | 2,121 | – | 2 | 141 |
| Other overseas countries | 82 | 19,935 | – | – |
| | 14,812 | 61,379 | 636,616 | 574,288 |

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

7 OTHER INCOME

| | Unaudited | |
|-----------------------------------|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| From continuing operations | | |
| Government grants | 1,145 | 1,048 |
| Sundry income | 455 | 45 |
| | <u>1,600</u> | <u>1,093</u> |

8 OTHER GAINS/(LOSSES), NET

| | Unaudited | |
|--|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| From continuing operations | | |
| Exchange gains/(losses), net | 2,715 | (53) |
| Loss on disposal of a subsidiary | – | (42) |
| Loss on deregistration of subsidiaries | (41) | – |
| | <u>2,674</u> | <u>(95)</u> |

9 OPERATING LOSS

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

| | Unaudited | |
|--|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| From continuing operations | | |
| Cost of sales | 7,878 | 43,567 |
| Salaries, wages and other benefits | 15,838 | 16,362 |
| Amortisation of intangible assets | 42 | 2,440 |
| Depreciation of property, plant and equipment | 1,801 | 2,071 |
| Amortisation of right-of-use assets | 5,826 | 6,798 |
| Directors' emoluments | 375 | 664 |
| Operating lease expenses for office premises and warehouses relating to short-term leases | 590 | 4,623 |
| Reversal of impairment on other receivables | (14) | – |
| Reversal of impairment loss on trade receivables | (3,376) | (27,750) |
| Impairment loss on contract assets | 4 | – |
| | <u>4</u> | <u>–</u> |

10 INCOME TAX EXPENSE

| | Unaudited | |
|-----------------------------------|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| From continuing operations | | |
| Current income tax expenses | | |
| Hong Kong profits tax | – | 579 |
| PRC Corporate Income Tax | – | 57 |
| | <hr/> | <hr/> |
| | – | 636 |
| | <hr/> | <hr/> |

Notes:

- (i) During the six months ended 30 June 2021 and 2020, 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 2021 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% (2020: 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 (2020: 15%).

11 DIVIDEND

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

12 DISCONTINUED OPERATION

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

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

13 LOSS PER SHARE

From continuing operations

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

| | Unaudited | |
|--|---------------------------------|------------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| Loss for the period attributable to owners of the Company | (14,279) | (11,448) |
| Add: loss for the period from discontinued operations | <u>–</u> | <u>101</u> |
| Loss for the purpose of basic and diluted loss per share from continuing operations | <u>(14,279)</u> | <u>(11,347)</u> |
| | Unaudited | |
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | '000 | '000 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | 6,156,929 | 6,156,929 |
| Effect of dilutive potential ordinary shares: | | |
| – Share options of the Company | <u>–</u> | <u>–</u> |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | <u>6,156,929</u> | <u>6,156,929</u> |

From continuing and discontinued operations

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

| | Unaudited | |
|---|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| Loss for the period attributable to owners of the Company | <u>(14,279)</u> | <u>(11,448)</u> |

For the six months ended 30 June 2021 and 2020, the computation of diluted loss per share does not assume the exercise of the outstanding share options of the Company since the assumed exercise would result in a decrease in loss per share.

14 PROPERTY, PLANT AND EQUIPMENT

| | Buildings <i>HK\$'000</i> | Plant and machinery <i>HK\$'000</i> | Furniture and fixture <i>HK\$'000</i> | Office equipment <i>HK\$'000</i> | Leasehold improvements <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Construction in progress <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|------------------------------|---|---|--|--|--------------------------------------|--|--------------------------|
| COST | | | | | | | | |
| At 1 January 2020 | 8,014 | 21,505 | 213 | 23,809 | 88 | 5,672 | 363,659 | 422,960 |
| Additions | - | - | - | 186 | - | - | 12,754 | 12,940 |
| Disposal of a subsidiary | - | (12,960) | - | (8,230) | (88) | (492) | - | (21,770) |
| Currency translation differences | 533 | 569 | 11 | 1,034 | - | 296 | 24,972 | 27,415 |
| At 31 December 2020 and 1 January 2021 | 8,547 | 9,114 | 224 | 16,799 | - | 5,476 | 401,385 | 441,545 |
| Additions | 5,153 | - | - | - | - | - | 8,226 | 13,379 |
| Currency translation differences | 80 | 85 | 1 | 154 | - | 44 | 3,751 | 4,115 |
| At 30 June 2021 | 13,780 | 9,199 | 225 | 16,953 | - | 5,520 | 413,362 | 459,039 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | | | | |
| At 1 January 2020 | - | 20,184 | 213 | 17,516 | 88 | 4,695 | - | 42,696 |
| Depreciation | 299 | 679 | - | 2,477 | - | 486 | - | 3,941 |
| Disposal of a subsidiary | - | (12,960) | - | (8,230) | (88) | (492) | - | (21,770) |
| Currency translation differences | 18 | 520 | 11 | 752 | - | 262 | - | 1,563 |
| At 31 December 2020 and 1 January 2021 | 317 | 8,423 | 224 | 12,515 | - | 4,951 | - | 26,430 |
| Depreciation | 207 | 290 | - | 1,211 | - | 93 | - | 1,801 |
| Currency translation differences | 3 | 73 | 1 | 117 | - | 45 | - | 239 |
| At 30 June 2021 | 527 | 8,786 | 225 | 13,843 | - | 5,089 | - | 28,470 |
| CARRYING AMOUNTS | | | | | | | | |
| At 30 June 2021 | 13,253 | 413 | - | 3,110 | - | 431 | 413,362 | 430,569 |
| At 31 December 2020 | 8,230 | 691 | - | 4,284 | - | 525 | 401,385 | 415,115 |

15 TRADE AND OTHER RECEIVABLES

| | Unaudited 30 June 2021 HK\$'000 | Audited 31 December 2020 HK\$'000 |
|---|--|--|
| Trade receivables | 67,080 | 222,010 |
| Less: allowance for expected credit loss | <u>(53,838)</u> | <u>(56,721)</u> |
| Trade receivables, net | 13,242 | 165,289 |
| Deposits and other receivables | 24,841 | 4,156 |
| Prepayment to suppliers | 194,175 | 1,237 |
| Other prepayments | 20,964 | 11,374 |
| Value-added tax and other tax recoverable | <u>17,546</u> | <u>13,710</u> |
| | 270,768 | 195,766 |
| Less: non-current portion | <u>(1,203)</u> | <u>(1,192)</u> |
| | <u>269,565</u> | <u>194,574</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 2021 and 31 December 2020:

| | Unaudited 30 June 2021 HK\$'000 | Audited 31 December 2020 HK\$'000 |
|-----------------|--|--|
| 0 to 90 days | 10,957 | 162,906 |
| 91 to 180 days | – | – |
| 181 to 365 days | – | 64 |
| 1 to 2 years | 1,400 | 2,319 |
| 2 to 3 years | <u>885</u> | <u>–</u> |
| | <u>13,242</u> | <u>165,289</u> |

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

| | Trade receivables <i>HK\$'000</i> | Contract assets <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|---|---------------------------------|
| At 1 January 2020 | 57,600 | 290 | 57,890 |
| Provision for impairment loss | 388 | 10,484 | 10,872 |
| Currency translation differences | 3,301 | 645 | 3,946 |
| Uncollectible amounts written off | <u>(4,568)</u> | <u>–</u> | <u>(4,568)</u> |
| At 31 December 2020 and 1 January 2021 | 56,721 | 11,419 | 68,140 |
| Provision for/(reversal of) impairment loss | (3,376) | 4 | (3,372) |
| Currency translation differences | <u>493</u> | <u>106</u> | <u>599</u> |
| At 30 June 2021 | <u>53,838</u> | <u>11,529</u> | <u>65,367</u> |

16 TRADE AND OTHER PAYABLES

| | Unaudited 30 June 2021 HK\$'000 | Audited 31 December 2020 HK\$'000 |
|---------------------------------------|--|--|
| Trade payables | 17,982 | 31,817 |
| Accrued employee benefits | 2,726 | 6,353 |
| Value-added tax and other tax payable | 8,197 | 7,786 |
| Other payables and accruals | 90,492 | 30,063 |
| Accrued construction costs | <u>57,239</u> | <u>60,680</u> |
| | <u>176,636</u> | <u>136,699</u> |

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

| | Unaudited 30 June 2021 HK\$'000 | Audited 31 December 2020 HK\$'000 |
|---------------|--|--|
| 0 – 90 days | 7,747 | 195 |
| 91 – 365 days | 36 | 22,064 |
| Over 1 year | <u>10,199</u> | <u>9,558</u> |
| | <u>17,982</u> | <u>31,817</u> |

17 BANK AND OTHER BORROWINGS

| | Unaudited | Audited |
|---------------------------------|------------------|-----------------|
| | 30 June | 31 December |
| | 2021 | 2020 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Bank borrowings | | |
| – Within 1 year | 12,030 | 11,919 |
| – Between 1 and 2 years | 24,060 | 23,838 |
| – Between 2 and 5 years | 72,180 | 80,193 |
| – Over 5 years | 72,617 | 65,035 |
| | 180,887 | 180,985 |
| Other borrowings | | |
| – Within 1 year | – | 315,854 |
| | – | 315,854 |
| Total bank and other borrowings | 180,887 | 496,839 |

As at 30 June 2021, the bank borrowings carried interest of approximately 6.7% to 7.4% p.a. (31 December 2020: 6.7% to 7.4% p.a.) which were secured by the right-of-use assets and the construction-in-progress, amounting to HK\$81,751,000 (31 December 2020: HK\$82,174,000) and HK\$413,362,000 (31 December 2020: HK\$401,385,000) respectively, and were guaranteed by the Company and a company which is controlled by Dr. Liu Ruopeng.

During the six months period end 30 June 2021, the other borrowings was fully repaid.

As at 30 June 2021, the total available banking facilities granted to the Group were approximately HK\$601,500,000 (31 December 2020: HK\$325,317,000), of which HK\$402,568,000 (31 December 2020: HK\$144,332,000) were not utilised.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW AND PROSPECTS

The Group is 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 Period, the Group recorded a total revenue of approximately HK\$14.8 million, a net loss of HK\$14.3 million and the gross profit margin was 46.8%.

EXPANDING APPLICATIONS IN VARIOUS INDUSTRIES

The Group has long been committed to the research and development of algorithms related to AI technology, big data analysis platform and professional application products and systems for vertical industries based on such algorithms and platform, and the provision of professional system integration, installation, debugging, operation and maintenance services. It has developed integrated solutions centering on AI algorithm technology to enable access to a variety of fixed and mobile front-end devices and empower them with AI. Currently, the Group’s AI-related products and integrated solutions are increasingly applied in the fields of public security and epidemic prevention, while further penetrating into the fields of education, industrial testing and Internet commerce.

By understanding the needs of and problems facing potential customers in different industries, the Group customises the development of core algorithm software and big data analysis platform based on the needs and pain points of customers, and ultimately provides products or comprehensive solutions that meet the relevant industry requirements and can fit into the business processes of customers. By doing so, the Group has designed and developed a series of underlying core AI algorithms. During the Period, the Group continued to carry out customised research and development to improve performance, refine functions and expand applications based on the needs of vertical industries such as public security, epidemic prevention, industrial testing, Internet commerce and education.

In the field of public security, the Group has developed multi-dimensional, multi-domain AI algorithm software such as mobile terminal identification and tracking algorithm and behaviour feature analysis algorithm and a big data management and analysis platform. Such algorithms and platform can selectively empower mobile or fixed terminals in different scenarios and form integrated solutions such as an artificial intelligent system based on the customised system management platform. For example, the Group continued to deliver, deploy, install and debug such solutions in densely populated areas such as Chongqing North Railway Station, which significantly improved the work efficiency of relevant personnel.

In the field of public health and epidemic prevention, COVID-19 is somewhat under control in the world, but the normalisation of COVID-19 prevention and control still creates a demand for smart anti-COVID helmets that can quickly screen out feverish individuals in a contactless manner. During the Period, the Group deeply innovated its algorithms for temperature measurement based on infrared and visible light fusion based on its years of AI technology expertise and the feedback from customers. Given the excellent performance of the smart anti-COVID helmet enabling rapid temperature measurement in places that have a large footfall and are widely distributed and prone to crowd gathering, customers in China and Southeast Asia continued to purchase the product as an anti-COVID tool.

In the field of data analysis services, the video capture and analysis and Internet behaviour analysis algorithms developed by the Group have been applied to precision marketing of Internet commerce companies and others to improve service efficiency. The smart campus management system designed and developed by the Group can be applied to campus safety management and analysis of child's behaviour during the grow-up process.

In respect of industrial testing, the intelligent industrial testing system and data analysis services provided by the Group have the technical characteristics of high robustness, strong adaptability and high efficiency, and are being applied in the fields of production process control and intelligent equipment testing.

During the Period, the Group has carried out developments of various industries in Shanghai, Chongqing, Shenzhen and other places. For example, in the field of Internet commerce, the development of application in Internet commerce based on big data analysis; research and development and systematic testing and deployment are being carried out in the field of industrial and testing application. At the same time, the campus intelligent management system platform is under continuous construction and implementation, in order to continue to deepen and expand the application of the Group's products in the education field.

As the Group's smart products penetrate into vertical industries such as public security, industrial testing and data analysis, the Group is also accelerating the research and development of other smart products. The Group's 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 the industrial needs, and be used to develop more application products according to the pain points and needs of users. There will be extensive application needs and great market prospects for AI technology in related fields.

MANPOWER DEVELOPMENT

With regard to staff development, the Company improved the talent training system and innovated in the 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, electronic information and other related fields from around the world. As at 30 June 2021, the Group had 98 employees, of whom approximately 19% have a master's degree or above. They lay a solid foundation for the further development of the Group.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the Period (2020: Nil).

CAPITAL STRUCTURE

As at 30 June 2021, the Company had 6,156,928,860 ordinary shares of HK\$0.01 each in issue.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group's total shareholders' funds amounted to approximately HK\$1,884,055,000 (31 December 2020: HK\$1,938,285,000). Total assets were approximately HK\$2,451,010,000 (31 December 2020: HK\$2,843,044,000) and total liabilities were approximately HK\$566,955,000 (31 December 2020: HK\$904,759,000).

As at 30 June 2021, the Group had cash and cash equivalents of approximately HK\$101,542,000 (31 December 2020: HK\$147,812,000) and pledged bank deposits of approximately HK\$1,648,000 (31 December 2020: HK\$2,388,000). The gearing ratio as of 30 June 2021, defined as the percentage of the total interest bearing debt, including lease liabilities and bank and other borrowings of approximately HK\$532,000 (31 December 2020: HK\$1,130,000) and HK\$180,887,000 (31 December 2020: HK\$496,839,000), respectively to net asset value, was approximately 9.6% (31 December 2020: 25.70%).

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 and other borrowings of the Group as at 30 June 2021 are set out in note 17 to the consolidated financial information.

PLEDGE OF ASSETS

As at 30 June 2021, the right-of-use assets amounted to HK\$81,751,000 (31 December 2020: HK\$82,174,000) and construction-in-progress amounted to HK\$413,362,000 (31 December 2020: HK\$401,385,000) were pledged for the Group's bank borrowings. The bank deposits amounted to HK\$1,648,000 as at 30 June 2021 (31 December 2020: HK\$2,388,000) were pledged for the construction work and service contracts.

CONTINGENT LIABILITIES

As at 30 June 2021, the Group had no significant contingent liabilities (31 December 2020: Nil).

RISK MANAGEMENT

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

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

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

KCT, a PRC company listed on the Shenzhen Stock Exchange (stock code: 002625), is principally engaged in developing innovative advanced technology and its core business is in metamaterial intelligent structure and equipment research, as well as the manufacture of seat function components for automobiles. The Group 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 RMB385,718,000 (HK\$459,737,000), the Group recognized a gain on disposal of approximately RMB40,014,000 (HK\$48,061,000) for the KCT Disposal in other comprehensive income for the Period. As at 30 June 2021, the Group held 56,282,860 ordinary shares of KCT, which represented approximately 2.61% of the KCT issued shares. The carrying amount of KCT as at 30 June 2021 is HK\$1,409,009,000 (31 December 2020: HK\$1,492,600,000, after KCT Disposal), which represented 57.5% (31 December 2020: 66.7%, after KCT Disposal) of the total assets of the Group. A fair value loss of HK\$82,744,000 for the six months ended 30 June 2021 (30 June 2020: a fair value loss of HK\$126,972,000) was recognised in other comprehensive loss. No dividend from KCT for the six months ended 30 June 2021 (31 December 2020: Nil) was received by the Group.

Please refer to 2020 Annual Report for other details of our investment in KCT.

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

EVENT AFTER THE REPORTING PERIOD

There was no material event occurred after the Period.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2021, certain assets of the Group were pledged to secure banking facilities granted to the Group as follows:

| | Unaudited | Audited |
|---|------------------|-----------------|
| | 30 June | 31 December |
| | 2021 | 2020 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Financial assets at fair value through other comprehensive income – Shares in KCT | – | 1,896,926 |
| Pledged bank deposits | 1,648 | 2,388 |
| Construction in progress | 413,362 | 401,385 |
| Right-of-use assets | 81,751 | 82,174 |
| | 496,761 | 2,382,873 |

As at 30 June 2021, the Group had no significant contingent liabilities (31 December 2020: Nil).

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.

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

CG code provisions A.6.7 and E.1.2

Code provisions A.6.7 and E.1.2 of the CG Code stipulate that independent non-executive directors, non-executive directors and the chairman of the board of directors should attend annual general meetings. The Chairman of the Board of Directors, Dr. Liu Ruopeng, and independent non-executive Director, Dr. Wong Kai Kit did not attend the annual general meeting held on 28 June 2021, due to other business commitments. In this respect, Dr. Luan Lin, an executive Director, the Chief Executive Officer and Chief Technical Officer of the Company, took the chair of that meeting to answer questions.

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Board of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its code of conduct regarding securities transactions by the Directors. 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 2020 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 2021. 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

Hong Kong, 30 August 2021

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.