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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 2021**

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 2021 (the “**Year**”) together with the comparative figures for the same period in 2020 (“**FY2020**”).

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

		2021	2020
	Note	HK\$'000	HK\$'000
<b>Continuing operations</b>			
Revenue	4	113,972	99,478
Cost of sales		<u>(72,242)</u>	<u>(60,902)</u>
<b>Gross profit</b>		<b>41,730</b>	38,576
Other income	5	21,013	9,450
Other gains, net	5	3,725	14,804
Reversal of impairment loss/(impairment loss) on trade receivables		2,266	(388)
Impairment loss on contract assets		(9,484)	(10,484)
Selling and distribution expenses		(35,495)	(19,544)
Research and development expenses		(18,217)	(41,719)
Administrative expenses		<u>(48,637)</u>	<u>(35,911)</u>
<b>Operating loss</b>	6	<b>(43,099)</b>	(45,216)
Finance income		2,698	1,007
Finance costs		<u>(207)</u>	<u>(33,009)</u>
Finance income/(costs), net	7	<u>2,491</u>	<u>(32,002)</u>
<b>Loss before tax</b>		<b>(40,608)</b>	(77,218)
Income tax expense	8	<u>–</u>	<u>(59)</u>
<b>Loss from continuing operations</b>		<b>(40,608)</b>	(77,277)
Loss from discontinued operation		<u>–</u>	<u>(2,092)</u>
<b>Loss for the year</b>		<b><u>(40,608)</u></b>	<b><u>(79,369)</u></b>

	<i>Note</i>	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loss for the year attributable to:			
Owners of the Company		<b>(40,608)</b>	(78,348)
Non-controlling interests		—	(1,021)
		<u><b>(40,608)</b></u>	<u>(79,369)</u>
Loss for the year from continuing operations attributable to:			
Owners of the Company		<b>(40,608)</b>	(77,249)
Non-controlling interests		—	(28)
		<u><b>(40,608)</b></u>	<u>(77,277)</u>
Loss for the year from discontinued operation attributable to:			
Owners of the Company		—	(1,099)
Non-controlling interests		—	(993)
		<u>—</u>	<u>(2,092)</u>
<b>Loss per share</b>			
<b>From continuing and discontinued operations</b>			
Basic (HK cents per share)	9	<b>(0.66)</b>	(1.27)
Diluted (HK cents per share)	9	<b>(0.66)</b>	(1.27)
<b>From continuing operations</b>			
Basic (HK cents per share)	9	<b>(0.66)</b>	(1.25)
Diluted (HK cents per share)	9	<u><b>(0.66)</b></u>	<u>(1.25)</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 HK\$'000	2020 HK\$'000
<b>Loss for the year</b>	<b>(40,608)</b>	(79,369)
<b>Other comprehensive income after tax:</b>		
<i>Items that may be reclassified to profit or loss:</i>		
Release of reserve upon deregistration of subsidiaries	–	(138)
Release of reserve upon disposal of a subsidiary	–	2
Exchange differences on translation of foreign operations	<b>40,663</b>	43,381
	<b>40,663</b>	43,245
<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	<b>252,367</b>	1,116,841
Less: Deferred tax	<b>(26,823)</b>	(167,527)
	<b>225,544</b>	949,314
Other comprehensive income, net of tax	<b>266,207</b>	992,559
<b>Total comprehensive income for the year</b>	<b>225,599</b>	913,190
Total comprehensive income for the year attributable to:		
Owners of the Company	<b>225,599</b>	914,211
Non-controlling interests	–	(1,021)
	<b>225,599</b>	913,190
Total comprehensive income attributable to owners of the Company arising from:		
Continuing operations	<b>225,599</b>	915,310
Discontinued operation	–	(1,099)
	<b>225,599</b>	914,211
Total comprehensive income attributable to the non-controlling interests arising from:		
Continuing operations	–	(28)
Discontinued operation	–	(993)
	–	(1,021)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Note</i>	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>449,390</b>	415,115
Investment properties	<i>11</i>	<b>130,355</b>	–
Right-of-use assets	<i>12</i>	<b>85,377</b>	157,913
Intangible assets and goodwill		<b>411</b>	68
Financial assets at FVOCI	<i>13</i>	<b>1,654,730</b>	1,896,926
Long-term deposits		<b>–</b>	1,192
		<hr/>	<hr/>
Total non-current assets		<b>2,320,263</b>	2,471,214
<b>CURRENT ASSETS</b>			
Inventories		<b>8,537</b>	15,172
Contract assets		<b>–</b>	11,884
Trade and other receivables	<i>14</i>	<b>120,563</b>	194,574
Financial asset at fair value through profit or loss ("FVPL")	<i>15</i>	<b>21,488</b>	–
Loans receivables		<b>–</b>	–
Pledged bank deposits		<b>1,679</b>	2,388
Cash and cash equivalents		<b>297,190</b>	147,812
		<hr/>	<hr/>
Total current assets		<b>449,457</b>	371,830
		<hr/>	<hr/>
<b>Total assets</b>		<b>2,769,720</b>	2,843,044

	<i>Note</i>	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>EQUITY</b>			
Share capital		<b>61,569</b>	61,569
Other reserves		<b>2,598,798</b>	2,413,768
Accumulated losses		<b>(436,319)</b>	(537,050)
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>2,224,048</b>	1,938,287
Non-controlling interests		<b>(2)</b>	(2)
		<hr/>	<hr/>
<b>Total equity</b>		<b>2,224,046</b>	1,938,285
		<hr/>	<hr/>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities		<b>346</b>	378
Bank borrowings		<b>153,507</b>	169,066
Deferred tax liabilities		<b>204,852</b>	230,903
		<hr/>	<hr/>
Total non-current liabilities		<b>358,705</b>	400,347
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>16</i>	<b>128,305</b>	136,699
Contract liabilities		<b>325</b>	4,501
Deferred government grants		<b>20,193</b>	21,642
Lease liabilities		<b>611</b>	752
Bank and other borrowings		<b>24,490</b>	327,773
Current tax payable		<b>13,045</b>	13,045
		<hr/>	<hr/>
Total current liabilities		<b>186,969</b>	504,412
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>545,674</b>	904,759
		<hr/>	<hr/>
<b>Total equity and liabilities</b>		<b>2,769,720</b>	2,843,044
		<hr/>	<hr/>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 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.

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 (the “**BVI**”). 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.

The consolidated financial statements have been prepared on a historical cost basis, except for the financial assets at FVOCI and financial assets at FVPL which are measured at fair value.

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\$40,608,000 and HK\$79,369,000 for the years ended 31 December 2021 and 2020, 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 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The application of the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements. Impacts of the adoption of the amended HKFRSs are discussed below:

##### *Amendment to HKFRS 16, COVID-19-Related Rent Concessions*

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The Group has early adopted the 2021 amendment in this financial year. With the extended time limit, certain rent concessions that were previously ineligible for the practical expedient because of the original time limit, become eligible. Accordingly, these rent concessions, which were previously accounted for as lease modifications, are now accounted for as negative variable lease payments, and are recognised in profit or loss in the period in which the event or condition that triggers those payments occurred.

##### *Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2*

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“**IBOR reform**”).

The amendments do not have an impact on these consolidated financial statements as the Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.



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

The Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2021. These new and revised HKFRSs include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKFRS 3 Business Combination	
– Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16 Property Plant and Equipment	
– Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37 Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to HKFRSs 2018 – 2020 Cycle	1 January 2022
Amendments to HKAS 1 Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 Presentation of Financial Statements and HKFRS Practice Statement 2 Making Materiality Judgements	
– Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12 Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023

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:

	2021 <i>HK\$'000</i>	2020 <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	13,110	63,421
– Provision of procurement services	9,923	10,118
Revenue recognised over time		
– Sales of artificial intelligent coverage system and related products	73,924	25,939
– Provision of technical support services based on AI technology	17,015	–
	<u>113,972</u>	<u>99,478</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 2021 and 2020 and the expected timing of recognising revenue as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within one year	<u>7,750</u>	<u>1,366</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*	
	2021 HK\$’000	2020 HK\$’000	2021 HK\$’000	2020 HK\$’000
PRC	83,052	68,543	665,533	574,147
Hong Kong	26,387	10,118	–	141
The Middle East	–	14,486	–	–
Others	4,533	6,331	–	–
	<u>113,972</u>	<u>99,478</u>	<u>665,533</u>	<u>574,288</u>

\* *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 2021 and 2020:

	2021 HK\$'000	2020 HK\$'000
Customer 1	17,002	N/A <sup>#</sup>
Customer 2	16,464	N/A <sup>#</sup>
Customer 3	13,519	N/A <sup>#</sup>
Customer 4	12,641	N/A <sup>#</sup>
Customer 5	11,682	N/A <sup>#</sup>
Customer 6	N/A <sup>#</sup>	15,291

<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

	Note	2021 HK\$'000	2020 HK\$'000
<b>Other income</b>			
<b>From continuing operations</b>			
Government grants	(a)	16,039	6,707
Consultancy service income		191	226
Rental income from investment properties		2,119	–
Sundry income		2,664	2,517
		<u>21,013</u>	<u>9,450</u>
<b>Other gains, net</b>			
<b>From continuing operations</b>			
Exchange gain, net		8,600	1,970
Loss on disposal of property, plant and equipment		(65)	–
Fair value gains on financial assets at FVPL		2,284	–
Loss on disposal of financial assets at FVPL		(7,703)	–
Gain on disposal of a subsidiary		–	12,749
Gain on deregistration of subsidiaries	(b)	–	138
Others		609	(53)
		<u>3,725</u>	<u>14,804</u>

#### Notes:

- (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 2021 and 2020. There are no unfulfilled conditions or contingencies relating to such government grant income.
- (b) The gain on deregistration of subsidiaries of HK\$138,000 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/(crediting):

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>From continuing operations</b>		
Employee benefit expenses	47,115	44,887
Cost of inventories sold	65,545	53,419
Cost of services	6,697	7,483
Amortisation of intangible assets (included in administrative and research and development expenses)	137	4,992
Amortisation of right-of-use assets	7,965	10,254
Auditor's remuneration	1,306	1,760
Loss on disposal of property, plant and equipment	65	–
Depreciation of property, plant and equipment	3,023	3,941
Depreciation of investment properties	4,578	–
Lease payments not included in the measurement of lease liabilities	877	7,078
(Reversal of impairment loss)/impairment loss on trade receivables	(2,266)	388
Impairment loss on contract assets	9,484	10,484
	<u>          </u>	<u>          </u>

Cost of inventories sold includes employee benefit expenses of approximately HK\$11,193,000 (2020: HK\$7,478,000) which are included in the amounts disclosed separately.

## 7 FINANCE INCOME/(COSTS), NET

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>From continuing operations</b>		
<b>Finance income</b>		
Interest income:		
– Short term and time deposits	2,698	1,007
	<u>          </u>	<u>          </u>
<b>Finance costs</b>		
Interest expenses:		
– Lease liabilities	(113)	(113)
– Bank and other borrowings	(12,709)	(33,578)
	<u>          </u>	<u>          </u>
	(12,822)	(33,691)
Amounts capitalised into construction in progress	12,615	682
	<u>          </u>	<u>          </u>
Finance costs charged to profit or loss	(207)	(33,009)
	<u>          </u>	<u>          </u>
<b>Finance income/(costs), net</b>	<u>          </u>	<u>          </u>

## 8 INCOME TAX EXPENSE

Income tax relating to continuing operations has been recognised in profit or loss as following:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>From continuing operations</b>		
Current income tax		
PRC Corporate Income Tax (“CIT”)		
Under-provision in prior years	–	59
	<u>–</u>	<u>59</u>

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for the year (2020: 16.5%). No Hong Kong profits tax has been provided for both years as the Group has no assessable profit derived in Hong Kong.

PRC CIT has been provided at a rate of 25% (2020: 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 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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>From continuing operations</b>		
Loss before tax	<u>(40,608)</u>	<u>(77,218)</u>
Tax at Hong Kong Profits Tax Rate of 16.5%	(6,700)	(12,741)
Tax effect of different tax rates of subsidiaries operations in other jurisdictions and region	(1,900)	(1,439)
Expenses not deductible for tax purposes	6,782	6,770
Income not taxable for tax purposes	(5,437)	(6,001)
Tax losses not recognised	9,679	14,751
Tax effect of temporary differences not recognised	1,460	(28)
Utilisation of tax losses previously not recognised	(3,884)	(1,312)
Under-provision in prior years	–	59
Income tax expense	<u>–</u>	<u>59</u>

## 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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loss for the year attributable to owners of the Company	(40,608)	(78,348)
Add: Loss for the year from discontinued operation	—	1,099
	<hr/>	<hr/>
Loss for the purpose of basic and diluted loss per share from continuing operations	<b>(40,608)</b>	<b>(77,249)</b>
	<hr/>	<hr/>
	2021 <i>'000</i>	2020 <i>'000</i>

Number of shares are calculated as follows:

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	—	—
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted loss per share	<b>6,156,929</b>	<b>6,156,929</b>
	<hr/>	<hr/>

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 2021, 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 are calculated as follows:

	<b>2021</b>	2020
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Loss for the year attributable to owners of the Company	<u><b>(40,608)</b></u>	<u>(78,348)</u>

For the number of shares used in the computation of basic loss per share same as note (a) above.

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 2021, 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.

**10 DIVIDEND**

No dividend was paid or proposed during the year ended 31 December 2021, nor has any dividend been proposed since the end of the reporting period (2020: Nil).



## 11 INVESTMENT PROPERTIES

The Group leases out properties under operating leases with rentals payable monthly. The leases typically run for an initial period of one year.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>COST</b>		
At 1 January	–	–
Acquired on acquisition of subsidiaries ( <i>Note</i> )	55,082	–
Transfer from property, plant and equipment and right-of-use assets	78,892	–
Currency translation differences	4,027	–
	<hr/>	<hr/>
At 31 December	138,001	–
<b>ACCUMULATED DEPRECIATION</b>		
At 1 January	–	–
Charge for the year	4,578	–
Transfer from property, plant and equipment and right-of-use assets	2,922	–
Currency translation differences	146	–
	<hr/>	<hr/>
At 31 December	7,646	–
<b>CARRYING AMOUNTS</b>		
At 31 December	130,355	–

*Note:* On 7 February 2021, the Company acquired the entire equity interest of a company and its subsidiaries, the sole purpose of which is to acquire a property held by its subsidiary in Shanghai, the PRC.

The investment properties are held under leases by the Group as a right-of-use asset to earn rentals.

The market value of the investment properties were HK\$153,361,000 as at 31 December 2021, based on the valuation performed by an independent professional valuer.

## 12 RIGHT-OF-USE ASSETS

- (a) The carrying amounts of the Group's right-of-use assets and movements during the year are as follows:

	<b>Leasehold land</b> <i>HK\$'000</i>	<b>Leased properties</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2020	145,204	12,525	157,729
Additions	–	530	530
Amortisation for the year	(4,680)	(5,574)	(10,254)
Currency translation differences	9,389	519	9,908
	<u>149,913</u>	<u>8,000</u>	<u>157,913</u>
At 31 December 2020	<u>149,913</u>	<u>8,000</u>	<u>157,913</u>
At 1 January 2021	<b>149,913</b>	<b>8,000</b>	<b>157,913</b>
Additions	–	<b>809</b>	<b>809</b>
Transfer to investment properties	<b>(67,740)</b>	–	<b>(67,740)</b>
Amortisation for the year	<b>(2,383)</b>	<b>(5,582)</b>	<b>(7,965)</b>
Currency translation differences	<b>2,213</b>	<b>147</b>	<b>2,360</b>
	<u>82,003</u>	<u>3,374</u>	<u>85,377</u>
At 31 December 2021	<u><b>82,003</b></u>	<u><b>3,374</b></u>	<u><b>85,377</b></u>

- (b) The amounts recognised in the profit or loss in relation to leases are as follows:

	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on lease liabilities (included in finance costs)	<b>113</b>	113
Amortisation of right-of-use assets	<b>7,965</b>	10,254
Expense relating to short-term leases and other leases with lease terms end within 12 months	<b>877</b>	7,078
	<u><b>877</b></u>	<u>7,078</u>

As at 31 December 2021, the leasehold land of HK\$82,003,000 (2020: HK\$82,174,000) was pledged against the bank borrowings of the Group.

Lease liabilities of HK\$957,000 (2020: HK\$1,130,000) are recognised with related right-of-use assets of HK\$3,374,000 as at 31 December 2021 (2020: HK\$8,000,000).

For both years, the Group leases various offices, quarters and exhibition halls for its operations. Lease contracts are entered into for fixed term of 2 to 5 years (2020: 2 to 5 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns a building under construction are primarily research and development purpose and for use as an office, including the underlying leasehold lands. The leasehold land components of these owned construction in progress are presented separately as the payments made can be allocated reliably.

## 13 FINANCIAL ASSETS AT FVOCI

	<i>Note</i>	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Representing:			
Listed equity securities	(a)	<b>1,654,730</b>	1,896,926
Unlisted equity securities	(b)	<u>–</u>	<u>–</u>
		<b><u>1,654,730</u></b>	<b><u>1,896,926</u></b>

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

As at 31 December 2021 and 2020, the carrying amounts of the listed equity securities are denominated in RMB.

*Notes:*

### (a) Listed equity securities

As at 31 December 2021, the Group hold 56,282,860 (2020: 71,528,751) ordinary shares of Kuang-Chi Technologies Co., Ltd. (“KCT”), representing 2.61% (2020: 3.32%) of the issued ordinary shares of KCT. 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.

### (b) Unlisted equity securities

The unlisted equity investments represent the Group’s equity interest in the private entities. The Group has elected to designate these investments as financial assets at FVOCI because the investments are held for long-term strategic purpose.

As at 31 December 2021 and 2020, the details of the Group's unlisted equity securities are as follows:

- (i) An investment represents 19.14% (2020: 19.14%) equity interest in Gilo Industries Group Limited (“**Gilo**”), a company incorporated in United Kingdom, with a carrying amount of nil as at 31 December 2021 and 2020. Gilo is principally engaged in the research and development and manufacturing of aviation engines. Since 2019, Gilo had disputes with its key customer over certain sales contract terms and such sales contract was suspended. Further, Gilo was in a voluntary winding up which was initiated by its creditors during the year ended 31 December 2021. All these factors had adverse financial impact on Gilo that resulting a significant fair value loss on the investment in Gilo in prior years, and the fair value is determined as nil at 31 December 2020 and 2021.
- (ii) A financial instrument issued by SkyX Limited (“**SkyX**”) that would be settled in a fixed number of shares of SkyX, with a carrying amount of nil as at 31 December 2021 and 2020. SkyX is a company incorporated in BVI and its principal place of business in Canada, and is principally engaged in development and commercialisation of SkyX aircrafts. Since 2019, SkyX encountered difficulties in the research and development activities and failed to achieve the planned progress and milestones were missed. The commercial launch of the product would then be further delayed. In 2020, considering the above circumstances, the Group agreed to surrender its nomination right of the directors of SkyX and not to involve in SkyX's daily operations anymore. Therefore, the Group is no longer able to exercise a significant influence over SkyX through its existing or potential rights, the investment in SkyX was reclassified from interest in associates to financial assets at FVOCI. At the date of reclassification, the fair value of the investment was considered to be zero based on the poor performance of SkyX in the recent years and the unlikelihood of getting improvement. The fair values of these financial instruments remained zero as at 31 December 2020 and 2021.
- (iii) As at 31 December 2020, the Group had equity interests in Agent Video Intelligence Ltd. (“**Agent VI**”), with a carrying amount of nil. Agent VI is a company incorporated in Israel and principally engaged in development of video analytics solutions. In 2020, the Group agreed to surrender its nomination right of the directors and not to involve in Agent VI's daily operations anymore, therefore the Group is no longer able to exercise a significant influence over Agent VI through its existing or potential rights. As a result, the investment in Agent VI was reclassified from interest in associates to financial assets at FVOCI. During the year ended 31 December 2021, the Group disposed the investment in Agent VI at a total consideration of approximately HK\$94,441,000, by way of cash and shares, to an independent third party with a fair value gain at same amount that was credited to other comprehensive income for the Year. Included in the total consideration, an amount of HK\$84,690,000 was settled by listed equity securities, which are classified as financial assets at FVPL.

## 14 TRADE AND OTHER RECEIVABLES

	<i>Note</i>	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables		<b>117,698</b>	222,010
Less: allowance for expected credit loss	<i>(b)</i>	<u><b>(55,947)</b></u>	<u>(56,721)</u>
Trade receivables, net		<b>61,751</b>	165,289
Deposits and other receivables		<b>24,943</b>	4,141
Consideration receivable		<b>15</b>	15
Prepayments to suppliers		<b>11,197</b>	1,237
Other prepayments		<b>2,384</b>	11,374
Value-added tax and other taxes recoverable		<u><b>20,273</b></u>	<u>13,710</u>
		<u><b>120,563</b></u>	<u>195,766</u>
Less: non-current portion		<u>–</u>	<u>(1,192)</u>
		<u><b>120,563</b></u>	<u>194,574</u>

The Group did not hold any collateral over these balances (2020: 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 2021 and 2020:

	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0 to 90 days	<b>48,966</b>	162,906
91 to 180 days	<b>10,525</b>	–
181 to 365 days	–	64
1 to 2 years	–	2,319
2 to 3 years	<u><b>2,260</b></u>	<u>–</u>
	<u><b>61,751</b></u>	<u>165,289</u>

The credit terms generally range from 30 to 150 days.

- (b) Movements in loss allowance account for the trade receivables and contract assets during the years ended 31 December 2021 and 2020 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
Impairment loss recognised	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	<u>56,721</u>	<u>11,419</u>	<u>68,140</u>
At 1 January 2021	<b>56,721</b>	<b>11,419</b>	<b>68,140</b>
Impairment loss recognised	–	<b>9,484</b>	<b>9,484</b>
Reversals of impairment loss	<b>(2,266)</b>	–	<b>(2,266)</b>
Currency translation differences	<b>1,527</b>	<b>245</b>	<b>1,772</b>
Uncollectible amounts written off	<u><b>(35)</b></u>	<u><b>(9,715)</b></u>	<u><b>(9,750)</b></u>
At 31 December 2021	<u><b>55,947</b></u>	<u><b>11,433</b></u>	<u><b>67,380</b></u>

As at 31 December 2021 and 2020, 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\$51,652,000 and HK\$50,277,000 as at 31 December 2021 and 2020, 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:

	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
USD	<b>16,113</b>	162,287
RMB	<b>45,638</b>	3,002
	<b>61,751</b>	165,289

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

## 15 FINANCIAL ASSETS AT FVPL

	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Listed equity securities		
Listed outside Hong Kong	<b>21,488</b>	–

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

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

As at 31 December 2021, the financial assets at FVPL are denominated in Sweden Krona.

16 TRADE AND OTHER PAYABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade payables	48,841	31,817
Accrued employee benefits	7,551	6,353
Value-added tax and other taxes payables	11,197	7,786
Other payables and accruals	19,754	30,063
Accrued construction costs	40,962	60,680
	<u>128,305</u>	<u>136,699</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.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0 to 90 days	20,981	195
91 to 365 days	18,179	22,064
Over 1 year	9,681	9,558
	<u>48,841</u>	<u>31,817</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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
USD	15,009	–
RMB	33,832	31,817
	<u>48,841</u>	<u>31,817</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 Group's revenue increased from approximately HK\$99.5 million for FY2020 to approximately HK\$114.0 million for the Year, representing an increase of approximately HK\$14.5 million or 14.6% and achieved a gross profit margin of 36.6%. The increase in revenue was mainly due to the increase in revenue generated from the Group's AI technology terminal products integration and analysis services. The net loss of the Group decreased by approximately HK\$38.8 million or 48.9% from approximately HK\$79.4 million for FY2020 to approximately HK\$40.6 million for the Year. The decrease was mainly due to the Company's repayment of bank and other borrowings through the disposal of the shares of Kuang-Chi Technologies Co., Ltd. ("KCT") in February 2021 and capitalization of borrowing costs for the Year, resulting in a significant decrease of approximately HK\$32.8 million in finance costs compared with FY2020, as well as the Group's further optimization of internal operation.

### **DEVELOPING DIVERSE PRODUCTS AND EXPANDING APPLICATIONS IN VARIOUS INDUSTRIES**

The Group focuses on the research, development and upgrade of AI technology, including technology based on AI algorithms and big data collection and analysis platform. At the application level, based on the accumulated and continuous innovation of the underlying AI technology, the Group has developed a variety of smart products and integrated solutions for application in vertical industries, and provides customised professional services in relation to development, system integration, installation, debugging, operation and maintenance of AI technology. The Group's products and solutions are widely applied in a variety of sectors including public security, health and epidemic prevention and industrial testing, intelligent production management and intelligent data analysis.

Through its core AI algorithms and big data analysis platform, the Group analyses and gains insights into the problems faced by potential customers in different industries, and customises design and develop products and solutions according to the needs and pain points of customers. Meanwhile, the Group continuously optimises and upgrades the algorithms and algorithm platform based on the feedback from large-scale enterprises in the industries, and provides products or integrated solutions that can be well integrated into customers' business processes and meet the industry standards. In the fields of public security, at the technical level, the Group continuously improves, optimises and upgrades the performance and functions of its smart wearable products and develops new customised products based on a series of underlying AI algorithms designed and developed by the Group; at the application level, the Group constantly gains access to and guides the needs in the vertical fields of public security that have been served by the Group. In addition, the Group expands applications to a variety of fields such as industrial testing, intelligent production management and intelligent data analysis, so as to empower and improve the performance of the industries served by the Group.

The Group's smart helmets have been sold in various places, and its usage has been well recognised by local public security organisations. As of the date of this announcement, the Group's smart helmets have officially entered into the police equipment procurement catalogue of the government procurement office of the Ministry of Public Security. The Group became a designated supplier of police equipment of the Ministry of Public Security, which paves way for further application and usage of its smart helmets in the field of public security. On the other hand, based on its AI technology expertise developed over the years and the feedback from early customers in the industry, the Group has optimised the functions of its integrated solutions, improved the recognition algorithm and tracking and analysis algorithms, and added the dimensions of data collection, management and analysis according to the application scenarios and business characteristics of customers in the security industry. As of the date of this announcement, the Group has completed the system installation, deployment and debugging for relevant customers in Sichuan and Guangdong. In the field of health and epidemic prevention, during the Year, the Group has innovated and improved its smart anti-COVID helmet, and added the dual-light (infrared and visible light) temperature measurement algorithm and energy consumption optimisation algorithm. Given the constant mutation and ongoing spread of COVID-19 around the world, temperature measurement for people who enter and leave public areas such as hospitals, schools, supermarkets, parks or public transport vehicles is still one of the most effective and important measures to prevent and control COVID-19. The smart anti-COVID helmet can perform contactless temperature measurement instantly in areas with heavy traffic or crowded areas and will raise an alarm when it detects anyone with high temperature. Given the excellent performance of the smart anti-COVID helmet, customers in overseas markets such as Southeast Asia continued to purchase the helmet as an anti-COVID tool.

In the field of smart industrial testing, the Group developed smart industrial testing system platform and smart factory solutions to cater customer needs. The smart industrial system platform and smart factory solutions of the Group are characterised by its strong pertinence, high adaptability, and high efficiency. During the Year, the Group has been engaged by industrial application customers in Shanghai and Guangdong, and completed the testing, deployment and delivery of solutions in relation to smart control of production process and smart testing of industrial equipment. The operating efficiency and equipment utilisation rate of the factories involved have been greatly improved. By doing so, the Group expanded the customer base and satisfied the individual development needs of customers in the field of smart industrial testing. In the field of data analysis services, the Group continuously upgraded the big data collection and video and behaviour analysis algorithms. The Internet data analysis services developed and provided by the Group have been applied in e-commerce precision marketing to improve service efficiency. During the Year, through identifying, analysing, and summarising industry big data in Beijing, Chongqing and other places, the Group has developed visual expression, deduction process and dynamic sorting services, and promoted the integration of industry data and modern AI technology through digital innovation. In the field of smart campus services, the Group will further explore new needs of customers based on the continuous application and operation of its smart management system in campus epidemic prevention, with a view to developing relevant integrated solutions.

As the Group's smart products and integrated solutions are increasingly applied in vertical fields such as industrial production and testing and intelligent data analysis, on one hand, the Group will constantly upgrade the existing products and solutions in the fields of public security and health and epidemic prevention that have been served by the Group, and collect and accumulate more data to provide customers with multi-dimensional and better services; on the other hand, the Group will accelerate the research, development and application of new products and solutions for industries newly expanded by the Group, and explore new ways and opportunities to apply new generation AI technology in various vertical industries. The management of the Group believes that with the development of 5G, cloud computing and big data technologies, the Company's AI technology will be gradually applied to more vertical industries based on industrial needs and its development objectives.

## **FINANCIAL REVIEW**

### **Revenue and operating performance**

The Group's revenue increased from approximately HK\$99.5 million for FY2020 to approximately HK\$114.0 million for the Year, an increase of approximately HK\$14.5 million or 14.6%. The increase was mainly due to the increase in revenue generated from the Group's AI technology terminal products integration and analysis services.

The net loss of the Group decreased by approximately HK\$38.8 million or 48.9% from approximately HK\$79.4 million for FY2020 to approximately HK\$40.6 million for the Year. The decrease was mainly due to a significant decrease of approximately HK\$32.8 million in finance costs compared with FY2020 as the Company had repaid the bank and other borrowings through the disposal of shares of KCT in February 2021 and capitalization of borrowing costs for the Year; meanwhile, the Group has also further optimised its internal operations.

### **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 2021, the Group had 90 employees, of whom approximately 21% have a master's degree or above. They lay a solid foundation for the further development of the Group.

### **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 was approximately HK\$971,000 (2020: Nil).

## **CAPITAL STRUCTURE**

On 22 April 2021, the Board announced that the Company granted share options to certain eligible employees, subject to acceptance by the grantees, to subscribe for a total of 27,000,000 ordinary shares with a par value of HK\$0.01 each in the share capital of the Company under the share option scheme adopted by the Company on 31 July 2012. As at 31 December 2021, 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 cash equivalents of HK\$297,190,000 as at 31 December 2021, an increase of HK\$149,378,000 as compared to 31 December 2020.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2021, the total shareholders' funds of the Group amounted to approximately HK\$2,224,046,000 (31 December 2020: HK\$1,938,285,000), the total assets of approximately HK\$2,769,720,000 (31 December 2020: HK\$2,843,044,000) and the total liabilities of approximately HK\$545,674,000 (31 December 2020: HK\$904,759,000).

As at 31 December 2021, the Group had bank balances and cash of approximately HK\$297,190,000 (31 December 2020: HK\$147,812,000) and the pledged bank deposits of approximately HK\$1,679,000 (31 December 2020: HK\$2,388,000). The gearing ratio as of 31 December 2021, is calculated as net debt divided by total capital, defined as the percentage of the total interest-bearing debt, including lease liabilities and bank and other borrowings of approximately HK\$957,000 (31 December 2020: HK\$1,130,000) and HK\$177,997,000 (31 December 2020: HK\$496,839,000), respectively to total capital, was not applicable (31 December 2020: 15.2%) due to net cash.

As at 31 December 2021, the Group's total bank borrowings of approximately HK\$177,997,000 (31 December 2020: HK\$180,985,000), of which approximately HK\$24,490,000 (31 December 2020: HK\$11,919,000) and HK\$153,507,000 (31 December 2020: HK\$169,066,000) will be repayable within one year and after one year respectively, carried interest rate at the floating rates from 6.7% to 7.4% (31 December 2020: 6.7% to 7.4%) per annum. The Group's other borrowings of approximately HK\$315,854,000 at 31 December 2020, where interest shall be charged at 4.4% per annum if the Group is unable to repay the loan by 31 March 2021, was fully repaid by the Group in February 2021.

As at 31 December 2021, the total available banking facilities granted to the Group were HK\$346,460,000 (2020: HK\$325,317,000), of which nil (2020: HK\$144,332,000) 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 actions to reduce the exchange risk.

## **PLEDGE OF ASSETS**

As at 31 December 2021, the right-of-use assets amounted to HK\$82,003,000 (2020: HK\$82,174,000) and construction-in-progress amounted to HK\$446,905,000 (2020: HK\$401,385,000) were pledged for the Group's bank borrowings. The bank deposits amounted to HK\$1,679,000 as at 31 December 2021 (2020: HK\$2,388,000) were pledged for the construction work and service contracts.

## **CONTINGENT LIABILITIES**

During the Year, 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\$19,191,000, by a construction subcontractor. The Group intends to contest 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 2021 (31 December 2020: Nil).

## **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**”) on the open market through a series of transactions during the period from 20 January 2021 to 8 February 2021, at the aggregate consideration of approximately RMB385,718,000. The average selling price of disposal of KCT shares was approximately RMB25.30. After the KCT Disposal, the sale proceeds were approximately HK\$442,970,000, the Group recognised a fair value gain of approximately HK\$57,527,000 for the KCT Disposal in other comprehensive income for the Year. As at 31 December 2021, the Group held 56,282,860 ordinary shares of KCT, which represented approximately 2.61% of the KCT issued shares. As at 31 December 2021, the carrying amount of the share of KCT is HK\$1,654,730,000 (31 December 2020: HK\$1,492,600,000, after KCT Disposal), which represented 59.7% (31 December 2020: 52.5%, after KCT Disposal) of the total assets of the Group.

For the year ended 31 December 2021, the fair value gain (including the gain upon disposal) of HK\$157.9 million (2020 fair value gain: HK\$1,116.8 million) was recognised in other comprehensive income.



## **Disposal of Agent Video Intelligence Ltd. shares, Acquisition of Irisity AB shares, and Disposal of Irisity AB shares (“Agent VI Disposal”)**

Agent Video Intelligence Ltd. (“**Agent VI**”) was incorporated under the laws of the State of Israel. Agent VI and its subsidiaries provide video analytics software that performs analysis of surveillance video for applications such as security, safety, traffic and business intelligence.

In 2020, the Group agreed to surrender its nomination right of the directors and not to involve in Agent VI’s daily operations anymore, therefore the Group is no longer able to exercise a significant influence over Agent VI through its existing or potential rights. As a result, the investment in Agent VI was reclassified from interest in associates to financial assets at FVOCI.

Irisity AB (“**Irisity AB**”) is incorporated under the laws of Sweden and it is a company traded on the NASDAQ First North Growth Market, with its main business being the development of video analytics to enhance surveillance efficiency.

As disclosed in the Company’s announcement dated 2 September 2021, on 2 September 2021, the Company (as one of existing shareholders of the Agent VI), the Other Shareholders, Agent VI and Irisity AB entered into the Share Purchase Agreement, pursuant to which, among others, the Company conditionally agreed to sell and Irisity AB conditionally agreed to purchase, the Sale Shares (representing approximately 16.5% of the total share capital in Agent VI on a fully diluted basis) at the Consideration of approximately USD11.8 million (subject to adjustment (if any)), which shall be satisfied partly by cash and partly by the issue of the Purchaser Shares.

During the year ended 31 December 2021, all the conditions of Agent VI Disposal were satisfied and the Group disposed the investment in Agent VI at a total consideration of approximately HK\$94,441,000, by way of cash and shares, to Irisity AB with a fair value gain at same amount that was credited to other comprehensive income for the Year. Upon the completion of Agent VI Disposal, the Group received 1,776,371 Irisity AB shares as partial consideration, at fair value of approximately HK\$84,690,000 and classified as financial assets at FVPL. During the Year, the Group disposed 1,373,572 Irisity AB shares with a fair value loss of approximately HK\$7,703,000 which was charged to profit or loss. As at 31 December 2021, the Group held 402,799 Irisity AB shares, which were measured at fair value of approximately HK\$21,488,000. For the year ended 31 December 2021, a fair value gain of HK\$2,284,000 was recognised in profit or loss.

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**

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 2021, the Group had approximately 90 employees (2020: 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 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 A.1.1. and E.1.2 of the CG Code, the Company has complied with the CG Code during the year under review.

Code provision A.1.1 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 E.1.2 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 28 June 2021 due to other business commitments.

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

During the year ended 31 December 2021, 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 2021, nor had any dividend been proposed for the year ended 31 December 2021 (year ended 31 December 2020: 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 2021.

### **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 2021 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 2021. 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 2021 as set out in this announcement have been compared and agreed by the Company's external auditors, RSM Hong Kong, to the amounts set out in the audited consolidated financial statements of the Group for the year ended 31 December 2021. 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 2021 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 2021 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 2022

*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.*