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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 2023**

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 2023 (the “**Period**”) together with the comparative figures for the same period in 2022 (the “**Comparative Period**”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

		Six months ended 30 June	
		2023	2022
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	6	33,461	30,931
Cost of sales		(28,788)	(24,554)
Gross profit		4,673	6,377
Other income	7	892	1,478
Other losses, net	8	(2,908)	(15,103)
Impairment loss on other receivables		(54)	–
Impairment loss on trade receivables		(351)	(1,723)
Impairment loss on contract assets		(190)	–
Selling and distribution expenses		(1,329)	(13,486)
Research and development expenses		(2,192)	(3,487)
Administrative expenses		(8,619)	(13,472)
Operating loss	9	(10,078)	(39,416)
Finance income		1,093	1,007
Finance costs		(114)	(62)
Finance income, net		979	945
Loss before tax		(9,099)	(38,471)
Income tax expense	10	–	–
Loss for the period		(9,099)	(38,471)
Loss for the period attributable to:			
Owners of the Company		(9,099)	(38,471)
Non-controlling interests		–	–
		(9,099)	(38,471)
Loss per share			
Basic (HK cents per share)	12	(0.15)	(0.62)
Diluted (HK cents per share)	12	(0.15)	(0.62)

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 2023

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Loss for the period	(9,099)	(38,471)
Other comprehensive loss		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(66,718)	(92,646)
<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	<u>(75,461)</u>	<u>(377,711)</u>
Other comprehensive loss, net of tax	<u>(142,179)</u>	<u>(470,357)</u>
Total comprehensive loss for the period	<u>(151,278)</u>	<u>(508,828)</u>
Total comprehensive loss for the period attributable to:		
Owners of the Company	(151,278)	(508,828)
Non-controlling interests	<u>–</u>	<u>–</u>
	<u>(151,278)</u>	<u>(508,828)</u>

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

		30 June 2023	31 December 2022
	<i>Notes</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	<i>13</i>	429,469	437,600
Investment properties		107,943	115,309
Right-of-use assets		69,096	73,608
Intangible assets		141	225
Financial assets at fair value through other comprehensive income	<i>14</i>	750,809	1,080,646
		<hr/>	<hr/>
Total non-current assets		1,357,458	1,707,388
CURRENT ASSETS			
Inventories		20,454	14,857
Contract assets		12,946	13,733
Trade and other receivables	<i>15</i>	93,854	77,851
Financial assets at fair value through profit or loss	<i>16</i>	1,452	2,016
Loan receivables		–	–
Pledged bank deposits		858	894
Bank and cash balances		321,129	162,948
		<hr/>	<hr/>
Total current assets		450,693	272,299
		<hr/>	<hr/>
Total assets		1,808,151	1,979,687

		30 June	31 December
		2023	2022
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(audited)
EQUITY			
Share capital		61,569	61,569
Other reserves		1,965,421	2,059,659
Accumulated losses		(560,911)	(504,231)
		<hr/>	<hr/>
Equity attributable to owners of the Company		1,466,079	1,616,997
Non-controlling interests		–	–
		<hr/>	<hr/>
Total equity		1,466,079	1,616,997
		<hr/>	<hr/>
LIABILITIES			
NON-CURRENT LIABILITIES			
Bank borrowings	<i>17</i>	113,623	118,860
Deferred tax liabilities		105,009	122,152
		<hr/>	<hr/>
Total non-current liabilities		218,632	241,012
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and other payables	<i>18</i>	71,667	67,849
Contract liabilities		110	115
Lease liabilities		80	318
Deferred government grants		17,784	18,603
Current tax payable		12,231	12,231
Bank borrowings	<i>17</i>	21,568	22,562
		<hr/>	<hr/>
Total current liabilities		123,440	121,678
		<hr/>	<hr/>
Total liabilities		342,072	362,690
		<hr/>	<hr/>
Total equity and liabilities		1,808,151	1,979,687
		<hr/>	<hr/>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

1 GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together the “**Group**”) are mainly engaged in the development and manufacturing of AI technology and related innovative products based on a big data analysis platform, and the provision of AI-empowered terminal products and integrated technical services and solutions in various vertical fields (“**AI Business**”).

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 2023. 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 2023 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 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by HKICPA.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the interim condensed consolidated financial information for the six months ended 30 June 2023 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2022.

(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 2023:

Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

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 2023 and have not been early adopted:

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁽¹⁾
Amendments to HKAS 1	Non-current Liabilities with Covenants ⁽¹⁾
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements (amendments) ⁽¹⁾
Amendments to HKFRS 16	Lease Liability in a Sales and Leaseback ⁽¹⁾
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁽¹⁾
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽²⁾

⁽¹⁾ Effective for the Group for annual period beginning on 1 January 2024.

⁽²⁾ 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 2023, on the operations of the Group, and is yet to be in the position to conclude the impact.

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

4 ESTIMATES

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

In preparing the interim condensed consolidated financial information, the significant judgements made by management in applying the accounting policies of the Group and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2022.

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 2022.

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 2023 and 31 December 2022 on a recurring basis:

	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 30 June 2023				
Financial assets				
Financial assets at fair value through other comprehensive income				
– Listed equity security	750,809	–	–	750,809
Financial assets at fair value through profit or loss				
– Listed equity securities	<u>1,452</u>	<u>–</u>	<u>–</u>	<u>1,452</u>
	<u>752,261</u>	<u>–</u>	<u>–</u>	<u>752,261</u>
At 31 December 2022				
Financial assets				
Financial assets at fair value through other comprehensive income				
– Listed equity security	1,080,646	–	–	1,080,646
Financial assets at fair value through profit or loss				
– Listed equity securities	<u>2,016</u>	<u>–</u>	<u>–</u>	<u>2,016</u>
	<u>1,082,662</u>	<u>–</u>	<u>–</u>	<u>1,082,662</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	
	2023	2022
	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		
– Sale of artificial intelligent system and related products	32,183	22,353
– Sale of wearable smart helmets	399	1,880
– Provision of technical support services based on AI technology	–	6,698
– Sale of metal component products	879	–
	33,461	30,931

(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		2023	2022
	2023	2022	2023	2022
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
	(unaudited)	(unaudited)	(unaudited)	(audited)
PRC	33,461	9,683	606,649	626,742
Hong Kong	–	20,404	–	–
Other overseas countries	–	844	–	–
	33,461	30,931	606,649	626,742

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

7 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Government grants	58	14
Rental income from investment properties	759	1,344
Sundry income	75	120
	<u>892</u>	<u>1,478</u>

8 OTHER LOSSES, NET

	<i>Note</i>	Unaudited	
		Six months ended 30 June	
		2023	2022
		HK\$'000	HK\$'000
Exchange (loss)/gains, net		(2,432)	201
Gain on disposal of property, plant and equipment		125	107
Fair value losses on financial assets at fair value through profit or loss	<i>16</i>	(564)	(15,411)
Written off of property, plant and equipment		(37)	–
		<u>(2,908)</u>	<u>(15,103)</u>

Note: As at 30 June 2023, the Group held 402,799 Irisity AB shares, which were measured at fair value of approximately HK\$1,452,000. For the six months ended 30 June 2023, a fair value loss of approximately HK\$564,000 was recognised in profit or loss.

9 OPERATING LOSS

Operating loss has been arrived at after charging:

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Cost of sales	28,788	24,554
Salaries, wages and other benefits	5,808	12,604
Amortisation of intangible assets	76	83
Depreciation of property, plant and equipment	32	317
Amortisation of right-of-use assets	1,323	3,771
Directors' emoluments	375	375
Operating lease expenses for office premises and warehouses relating to short-term leases	38	135
Impairment loss on other receivables	54	–
Impairment loss on trade receivables	351	1,723
Impairment loss on contract assets	190	–
	<u>190</u>	<u>–</u>

10 INCOME TAX EXPENSE

	<i>Note</i>	Unaudited	
		Six months ended 30 June	
		2023	2022
		HK\$'000	HK\$'000
Current income tax expenses			
Hong Kong profits tax	(i)	–	–
PRC Corporate Income Tax	(ii)	–	–
		<hr/>	<hr/>
		–	–
		<hr/>	<hr/>

Notes:

- (i) During the six months ended 30 June 2023 and 2022, 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 2023 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% (2022: 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 2022 to 2025 (2022: 15%).

11 DIVIDEND

No dividend was paid, declared or proposed by the Company during the six months ended 30 June 2023 and 2022.

12 LOSS PER SHARE

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

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Loss for the purpose of basic and diluted loss per share	(9,099)	(38,471)

	Unaudited	
	Six months ended 30 June	
	2023	2022
	'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	–	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	6,156,929	6,156,929

For the six months ended 30 June 2023 and 2022, the computation of diluted loss per share does not assume the exercise of the outstanding share options issued because the exercise price of these options was higher than the average market price of the Company's shares.

13 PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery <i>HK\$'000</i>	Furniture and fixture <i>HK\$'000</i>	Office equipment <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 2022	9,363	224	17,041	5,356	446,905	478,889
Additions	-	-	5	-	26,419	26,424
Disposal	(166)	-	(8,244)	(2,002)	-	(10,412)
Currency translation differences	<u>(732)</u>	<u>(14)</u>	<u>(1,110)</u>	<u>(652)</u>	<u>(35,924)</u>	<u>(38,432)</u>
At 31 December 2022 and 1 January 2023	8,465	210	7,692	2,702	437,400	456,469
Additions	-	-	-	-	11,755	11,755
Disposal	-	-	-	(629)	-	(629)
Written-off	(3,959)	-	(1,707)	-	-	(5,666)
Currency translation differences	<u>(213)</u>	<u>(7)</u>	<u>(270)</u>	<u>(77)</u>	<u>(19,744)</u>	<u>(20,311)</u>
At 30 June 2023	4,293	203	5,715	1,996	429,411	441,618
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 31 December 2021 and 1 January 2022	9,124	224	15,044	5,107	-	29,499
Depreciation	111	-	313	129	-	553
Disposal	(166)	-	(6,707)	(1,937)	-	(8,810)
Currency translation differences	<u>(716)</u>	<u>(14)</u>	<u>(1,005)</u>	<u>(638)</u>	<u>-</u>	<u>(2,373)</u>
At 31 December 2022 and 1 January 2023	8,353	210	7,645	2,661	-	18,869
Depreciation	14	-	4	14	-	32
Disposal	-	-	-	(629)	-	(629)
Written-off	(3,874)	-	(1,686)	-	-	(5,560)
Currency translation differences	<u>(212)</u>	<u>(7)</u>	<u>(268)</u>	<u>(76)</u>	<u>-</u>	<u>(563)</u>
At 30 June 2023	4,281	203	5,695	1,970	-	12,149
CARRYING AMOUNTS						
At 30 June 2023	12	-	20	26	429,411	429,469
At 31 December 2022	<u>112</u>	<u>-</u>	<u>47</u>	<u>41</u>	<u>437,400</u>	<u>437,600</u>

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Unaudited 30 June 2023 HK\$'000	Audited 31 December 2022 HK\$'000
Listed security:		
– Equity security (note)	<u>750,809</u>	<u>1,080,646</u>

Note: As at 30 June 2023, the Group hold 45,624,160 (31 December 2022: 56,282,860) ordinary shares of Kuang-Chi Technologies Co., Ltd. (“KCT”), representing 2.12% (31 December 2022: 2.61%) of the issued ordinary shares of KCT. Dr. Liu Ruopeng is the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology Limited and holds more than 5% shareholding of KCT. KCT is a company listed on the Shenzhen Stock Exchange. These investments are not held for trading, instead, they are held for long-term strategic purposes. The Directors of the Company have elected to designate these investments in financial assets at FVOCI as they believe that recognising short-term fluctuations in these investments in profit or loss would not be consistent with the Group’s strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

15 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2023 HK\$'000	Audited 31 December 2022 HK\$'000
Trade receivables	101,964	77,815
Less: allowance for expected credit loss	<u>(52,709)</u>	<u>(54,786)</u>
Trade receivables, net	49,255	23,029
Deposits and other receivables	22,158	24,857
Consideration receivable	8	22
Prepayment to suppliers	5,400	11,619
Other prepayments	–	1,783
Value-added tax and other tax recoverable	<u>17,033</u>	<u>16,541</u>
	<u>93,854</u>	<u>77,851</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 2023 and 31 December 2022:

	Unaudited 30 June 2023 <i>HK\$'000</i>	Audited 31 December 2022 <i>HK\$'000</i>
0 to 90 days	39,810	18,771
91 to 180 days	324	265
181 to 365 days	8,381	331
1 to 2 years	280	3,239
Over 2 years	460	423
	49,255	23,029

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 2022	55,947	11,433	67,380
Provision for impairment loss	3,328	123	3,451
Currency translation differences	<u>(4,489)</u>	<u>(927)</u>	<u>(5,416)</u>
At 31 December 2022 and 1 January 2023	54,786	10,629	65,415
Provision for impairment loss	351	190	541
Currency translation differences	<u>(2,428)</u>	<u>(477)</u>	<u>(2,905)</u>
At 30 June 2023	52,709	10,342	63,051

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2023 <i>HK\$'000</i>	Audited 31 December 2022 <i>HK\$'000</i>
Listed equity securities		
Listed outside Hong Kong	<u>1,452</u>	<u>2,016</u>

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

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

As at 30 June 2023 and 31 December 2022, the financial assets at fair value through profit or loss are denominated in Sweden Krona.

17 BANK BORROWINGS

	Unaudited 30 June 2023 <i>HK\$'000</i>	Audited 31 December 2022 <i>HK\$'000</i>
Bank borrowings		
– Within 1 year	21,568	22,562
– Between 1 and 2 years	113,623	22,562
– Between 2 and 5 years	<u>–</u>	<u>96,298</u>
Total bank borrowings	<u>135,191</u>	<u>141,422</u>

As at 30 June 2023, the bank borrowings carried interest of approximately 6.7% to 7.4% p.a. (31 December 2022: 6.35% to 7.35% p.a.) which were secured by the right-of-use assets and the construction-in-progress, amounting to HK\$69,025,000 (31 December 2022: HK\$73,320,000) and HK\$429,411,000 (31 December 2022: HK\$437,400,000) respectively, and were guaranteed by the Company and a company which is controlled by Dr. Liu Ruopeng.

As at 30 June 2023, the total available banking facilities granted to the Group were approximately HK\$305,123,000 (31 December 2022: HK\$319,185,000), of which HK\$nil (31 December 2022: HK\$nil) were not utilised.

18 TRADE AND OTHER PAYABLES

	Unaudited	Audited
	30 June	31 December
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	39,931	28,782
Accrued employee benefits	1,871	4,921
Value-added tax and other tax payable	6,300	4,658
Other payables and accruals	9,794	11,906
Accrued construction costs	13,771	17,582
	<hr/> 71,667 <hr/>	<hr/> 17,582 <hr/> 67,849 <hr/>

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

	Unaudited	Audited
	30 June	31 December
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	5,098	15,468
91-365 days	20,022	602
Over 1 year	14,811	12,712
	<hr/> 39,931 <hr/>	<hr/> 12,712 <hr/> 28,782 <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW AND PROSPECTS

The Company and its subsidiaries (collectively, the “**Group**”) are mainly engaged in the development and manufacturing of AI technology and related innovative products based on a big data analysis platform, and the provision of AI-empowered terminal products and integrated technical services and solutions in various vertical fields (“**AI Business**”). For the six months ended 30 June 2023 (the “**Period**”), the Group recorded a sale revenue of approximately HK\$33.5 million, and a net loss of HK\$9.1 million. Compared with the same period last year, the Group’s sale revenue increased slightly by 8.18%. The Group’s net loss decreased by HK\$29.37 million, mainly because the Group further reduced operating expenses through effective control and optimisation of operating costs.

FURTHER EXPANDING APPLICATION SCENARIOS AND POOLING TALENT AND TECHNICAL RESOURCES TO UNCOVER NEW VALUE

As at 30 June 2023, the Group has been strengthening its efforts in the expansion of existing markets and the update and iteration of products. By conducting in-depth analysis and gaining insights into the problems faced by potential customers in the industry, the Group designed and developed tailor-made solutions according to the needs and pain points of customers. Meanwhile, the Group continuously enhanced and upgraded its underlying and applied algorithms, as well as the overall algorithm platform based on the feedback of applications from customers in the industry, and provided products or integrated solutions that can be well integrated into customers’ business processes and meet industry standards. The Group has accumulated extensive experience in the application of underlying core AI algorithms, especially in the fields of public security and industrial monitoring, and it has improved the performance and functions of existing wearable smart products and the application efficiency of customised smart system.

Through years of business development, the Group possessed multiple product projects with leading technology in the fields of aircraft and aerostats. We also made certain progress in expansion and promotion, and accumulated a considerable amount of talent and technical resources in relevant industries. During the Period, the Group officially launched products and services for the design, processing, and manufacturing of high-end metal components, by tapping deeper into the talent reserve and technical resources related to the existing aircraft and aerostats business and by drawing on relevant skills and experiences. We aimed to further integrate and utilise the technical, personnel, and supply chain resources accumulated in the early stage to pave the way for the organic growth of our business and products. As the Group's products and comprehensive solutions are applied in more scenarios in public security, industrial production and monitoring, and other industries, the Group will focus more on the upgrade and iteration of existing products and solutions. With the collection and acquisition of data, we will provide customers with more diverse, in-depth services while further exploring new customer resources in these industries. In the meantime, the design, processing and manufacturing of metal components will become one of our new directions of expansion. The in-depth expansion towards this business direction will further contribute to the Group's ability to design and integrate products and comprehensive solutions in relevant industrial sectors, and help us gain insights into relevant industries and fields, so as to widen the application scenarios in such fields.

With regard to public security, our smart helmets were constantly delivered to meet the demands of the industry and customers for customization in various scenarios and were recognised by local public security departments in regular use. Moreover, our smart helmets have been launched in 22 provinces, municipalities and autonomous regions, and put into application in over 55 cities. In addition, based on years of technological accumulation and customer feedback, the Group further refined its integrated solutions by optimising the identification and tracking analysis algorithms and enhancing data collection, management and analysis. With regard to smart industry and monitoring, the system platform and solutions developed by the Group can cater to customers' needs with high pertinence, adaptability, efficiency and speed. In close collaboration with industrial clients in Guangdong and other regions, we have achieved the intelligent control of production processes and the deployment and delivery of intelligent monitoring system for equipment. Thus, operational efficiency and quality control were significantly improved to meet clients' demand for customised development.

The management of the Group will continue to pursue a prudent policy on strategic management, and constantly make innovations under a customer-centred and quality-based principle. The Group will refine the measures to improve internal governance and increase efforts in marketing to continuously enhance its competitive strength and market share, which will help the Group incessantly provide customers with high-quality products and excellent services, as well as finer and more efficient solutions.

EMPLOYEE INFORMATION AND REMUNERATION POLICIES

The emolument policy of the employees of the Group is set up by the management on the basis of their merits, qualifications and competence.

As of 30 June 2023, the Group had an aggregate of 85 employees (as of 31 December 2022: 67 employees). The Group will recruit highly skilled talents in AI algorithms, big data, electronic information, structure, strength, metal processing technology and other areas from all over the world, and promote individual persons according to their strengths and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and prevailing market salary scale.

The Group is dedicated to the training and development of its employees. The Group leverages its research and development capabilities and other resources to ensure that each employee maintains a current skill-set through continuous training. The Group provides introductory training and orientation for all new employees, as well as on-the job training to continually improve its employees' technical, professional and management skills. The Company has also adopted share option schemes for the purpose of providing incentives and rewards to eligible participants, including the employees of the Group, who contributes to the success of the Group's operations.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the Period (2022: nil).

CAPITAL STRUCTURE

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

As at 30 June 2023, the Company has issued 6,156,928,860 ordinary shares. The Group finances its working capital requirements through a combination of funds generated from disposal of financial assets at fair value through other comprehensive income. The Group had a total short-term deposits and cash and cash equivalents of HK\$321,129,000 as at 30 June 2023, an increase of HK\$158,181,000 as compared to 31 December 2022.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2023, the Group's total shareholders' funds amounted to approximately HK\$1,466,079,000 (31 December 2022: HK\$1,616,997,000). Total assets were approximately HK\$1,808,151,000 (31 December 2022: HK\$1,979,687,000) and total liabilities were approximately HK\$342,072,000 (31 December 2022: HK\$362,690,000).

As at 30 June 2023, the Group had short-term deposits of approximately HK\$227,900,000 (31 December 2022: HK\$90,248,000), cash and cash equivalents of approximately HK\$93,229,000 (31 December 2022: HK\$72,700,000) and pledged bank deposits of approximately HK\$858,000 (31 December 2022: HK\$894,000). The gearing ratio as of 30 June 2023, is calculated as net debt divided by total capital, which is defined as the percentage of the total interest-bearing debt, including lease liabilities and bank and other borrowings of approximately HK\$80,000 (31 December 2022: HK\$318,000) and HK\$135,191,000 (31 December 2022: HK\$141,422,000), respectively to total capital, was not applicable (31 December 2022: nil) due to net cash.

As at 30 June 2023, the Group's total bank borrowings of approximately HK\$135,191,000 (31 December 2022: HK\$141,422,000), of which approximately HK\$21,568,000 (31 December 2022: HK\$22,562,000) and HK\$113,623,000 (31 December 2022: HK\$118,860,000) 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 2022: 6.35% to 7.35%) per annum.

As at 30 June 2023, the total available banking facilities granted to the Group were HK\$305,123,000 (31 December 2022: HK\$319,185,000), of which nil (31 December 2022: nil) were not utilised.

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

Particulars of bank borrowings of the Group as at 30 June 2023 are set out in note 17 to the condensed consolidated financial information.

PLEDGE OF ASSETS

As at 30 June 2023, the right-of-use assets amounted to HK\$69,025,000 (31 December 2022: HK\$73,320,000) and construction-in-progress amounted to HK\$429,411,000 (31 December 2022: HK\$437,400,000) were pledged for the Group's bank borrowings. The bank deposits amounted to HK\$858,000 as at 30 June 2023 (31 December 2022: HK\$894,000) were pledged for the construction work and service contracts.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group had no significant contingent liabilities.

RISK MANAGEMENT

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

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

KC Subscription in Kuang-Chi Technologies Co., Ltd. ("KCT")

KCT, a company established in the PRC and listed on the Shenzhen Stock Exchange (stock code: 002625), is principally engaged in developing innovative advanced technology and its core business is in metamaterial intelligent structure and equipment research, as well as the manufacture of seat function components for automobiles.

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

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

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

During the period from 9 February 2023 to 19 May 2023, the Group disposed of a total of 10,658,700 KCT shares (“**First KCT Disposal in 2023**”) on the open market through a series of transactions at the aggregate consideration of approximately RMB188,937,000. The average selling price of disposal of KCT shares was approximately RMB17.73. After the First KCT Disposal in 2023, the sale proceeds were approximately HK\$205,366,000, the Group will recognize a fair value gain of approximately HK\$7,088,000 for the First KCT Disposal in 2023 in other comprehensive income for the six months ended 30 June 2023.

As at 30 June 2023, the Group held 45,624,160 ordinary shares of KCT, which represented approximately 2.12% of the KCT issued shares. As at 30 June 2023, the carrying amount of the share of KCT is HK\$750,809,000 (31 December 2022: HK\$1,080,646,000), which represented 41.5% (31 December 2022: 54.6%) of the total assets of the Group.

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

1. Further disposal of KCT shares

During the period from 21 July 2023 to 24 July 2023, the Group further disposed of a total of 930,500 KCT shares (“**Further KCT Disposal in 2023**”) on the open market through a series of transactions, at the aggregate consideration of approximately RMB13,630,000. The average selling price of disposal of KCT shares was approximately RMB14.65. After the Further KCT Disposal in 2023, the sale proceeds were approximately HK\$14,815,000, the Group currently expects to recognize a fair value loss of approximately HK\$2,205,000 for the Further KCT Disposal in other comprehensive income for the year ending 31 December 2023.

2. Continuing Connected Transactions – Master Procurement Agreement

On 9 August 2023, the Company (for itself and on behalf of its subsidiaries), as vendor, and KCT (for itself and on behalf of its subsidiaries), as purchaser, entered into the Master Procurement Agreement in respect of the procurement of the (i) Integrated Intelligent Systems and (ii) Metal Component Products.

The Annual Caps in respect of the transactions contemplated under the Master Procurement Agreement will be RMB60 million for the Year 2023, RMB78 million for the Year 2024 and RMB102 million for the Year 2025.

As one or more of the applicable percentage ratios relating to the Annual Caps for the continuing connected transactions contemplated under the Master Procurement Agreement is more than 5%, the continuing connected transactions contemplated under the Master Procurement Agreement are subject to the reporting, announcement, annual review and independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

An ordinary resolution will be proposed to seek the independent shareholders' approval of, among other things, the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps at the Special General Meeting (“SGM”).

Further details of the Master Procurement Agreement are set out in the announcement of the Company dated 9 August 2023, and the relevant circular and notice of SGM is expected to be despatched to the shareholders on or before 30 September 2023.

3. Possible Major Transaction – Disposal Mandate of KCT Shares

In view of the prevailing market conditions and to prevent the Disposal Mandate from constituting a very substantial disposal as defined under Rule 14.06 of the Listing Rules (i.e. any applicable percentage ratio in relation to the Disposal is 75% or higher), the Company plans to obtain the Disposal Mandate from the shareholders for the possible disposal of up to 33,000,000 KCT Shares (“**Possible Disposal**”) on open market transactions on the Shenzhen Stock Exchange during the Mandate Period.

As one or more of the applicable percentage ratios of the Possible Disposal when aggregated with the Announced Disposals which were conducted within 12 months of the previous 12-month period from the relevant Previous Disposal will exceed 25% but less than 75%, the Disposal Mandate may constitute a major transaction of the Company under Chapter 14 of the Listing Rules and shall be subject to the announcement, circular and the shareholders' approval at the SGM.

Further details of the Possible Disposal are set out in the announcement of the Company dated 9 August 2023, and the relevant circular and notice of SGM are expected to be despatched to the shareholders on or before 30 September 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Practices

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

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

Save as the deviation from the Code Provision F.2.2 of the CG Code, the Company has complied with the CG Code during the six months ended 30 June 2023 under review.

Code provision F.2.2 of the CG Code stipulates that the chairman of the board of directors should attend annual general meetings. The Chairman of the Board of Directors, Dr. Liu Ruopeng did not attend the annual general meeting held on 30 June 2023 due to other business commitments.

In this respect, Dr. Luan Lin, the executive Director of the Company, took the chair of that meeting to answer questions to ensure effective communication with the shareholders at the meeting.

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 2022 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 2023. The Audit Committee is satisfied with the review and the Board is also satisfied with the Audit Committee's report.

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

Shenzhen, the PRC, 30 August 2023

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. Wu Zhili.