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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 2023**

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 2023 (the “**Year**”) together with the comparative figures for the same period in 2022 (“**FY2022**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

		2023	2022
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	83,139	52,523
Cost of sales		<u>(68,463)</u>	<u>(41,697)</u>
Gross profit		14,676	10,826
Other income	5	2,754	11,602
Other gains/(losses), net	5	10,869	(23,271)
Impairment loss on trade receivables		(5,872)	(3,328)
Impairment loss on contract assets		(530)	(123)
Selling and distribution expenses		(3,180)	(22,879)
Research and development expenses		(6,656)	(11,377)
Administrative expenses		<u>(21,646)</u>	<u>(31,671)</u>
Operating loss	6	(9,585)	(70,221)
Finance income		2,423	2,404
Finance costs		<u>(133)</u>	<u>(95)</u>
Finance income, net	7	<u>2,290</u>	<u>2,309</u>
Loss before tax		(7,295)	(67,912)
Income tax expense	8	<u>–</u>	<u>–</u>
Loss for the year attributable to owners of the Company		<u>(7,295)</u>	<u>(67,912)</u>
			(Restated)
Loss per share			
Basic (HK cents per share)	9	(1.18)	(11.03)
Diluted (HK cents per share)	9	<u>(1.18)</u>	<u>(11.03)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023 HK\$'000	2022 HK\$'000
Loss for the year	(7,295)	(67,912)
Other comprehensive income after tax:		
<i>Items that reclassified and may be reclassified to profit or loss:</i>		
Release of other reserves upon deregistration of subsidiaries	(715)	688
Exchange differences on translation of foreign operations	<u>(43,123)</u>	<u>(163,172)</u>
	<u>(43,838)</u>	<u>(162,484)</u>
<i>Items that will not be subsequent reclassified to profit or loss:</i>		
Changes in fair value of financial assets at fair value through other comprehensive income (“FVOCI”) – gross	(113,432)	(443,814)
Less: Deferred tax	<u>15,572</u>	<u>66,572</u>
	<u>(97,860)</u>	<u>(377,242)</u>
Other comprehensive income, net of tax	<u>(141,698)</u>	<u>(539,726)</u>
Total comprehensive income for the year attributable to owners of the Company	<u>(148,993)</u>	<u>(607,638)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	<i>Note</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		443,124	437,600
Investment properties		61,809	115,309
Right-of-use assets		69,082	73,608
Intangible assets		69	225
Financial assets at FVOCI	<i>11</i>	724,119	1,080,646
Other non-current assets	<i>12</i>	79,672	–
		<hr/>	<hr/>
Total non-current assets		1,377,875	1,707,388
CURRENT ASSETS			
Inventories		12,667	14,857
Contract assets		21,398	13,733
Trade and other receivables	<i>12</i>	106,305	77,851
Financial asset at fair value through profit or loss ("FVPL")		5,481	2,016
Loans receivables		–	–
Pledged bank deposits		868	894
Bank and cash balances		258,065	162,948
		<hr/>	<hr/>
		404,784	272,299
Asset classified as held for sale		45,591	–
		<hr/>	<hr/>
Total current assets		450,375	272,299
		<hr/>	<hr/>
Total assets		1,828,250	1,979,687

	<i>Note</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
EQUITY			
Share capital		61,569	61,569
Other reserves		2,099,093	2,059,659
Accumulated losses		(666,815)	(504,231)
Total equity		<u>1,493,847</u>	<u>1,616,997</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Bank borrowings		93,575	118,860
Deferred tax liabilities		77,795	122,152
Total non-current liabilities		<u>171,370</u>	<u>241,012</u>
CURRENT LIABILITIES			
Trade and other payables	<i>13</i>	121,827	67,849
Contract liabilities		–	115
Deferred government grants		7,115	18,603
Lease liabilities		–	318
Bank borrowings		21,924	22,562
Current tax payable		12,167	12,231
Total current liabilities		<u>163,033</u>	<u>121,678</u>
Total liabilities		<u>334,403</u>	<u>362,690</u>
Total equity and liabilities		<u>1,828,250</u>	<u>1,979,687</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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 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 companies are New Horizon Wireless Technology Limited and New Horizon Wireless Communication Limited which are incorporated in the British Virgin Islands (the “**BVI**”). Its ultimate holding company is 深圳大鵬光啟投資諮詢有限責任公司 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 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 all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS**”), Hong Kong Accounting Standards (“**HKASs**”), and Interpretations. The 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 the consolidated financial statements.

The Group incurred losses of HK\$7,295,000 and HK\$67,912,000 for the years ended 31 December 2023 and 2022, respectively. In preparing the 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 the 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 the 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 2023 for the preparation of the consolidated financial statements:

HKFRS 17	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

The application of the new and amendments to HKFRSs in the current year has 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 the consolidated financial statements.

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

The Group has not early applied the following amendments to standards and interpretation that have been issued but are not yet effective:

	Effective for accounting periods beginning on or after
Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1 – Non-current Liabilities with Covenants	1 January 2024
Amendments to HKFRS 16 – Lease Liability in a Sales and Leaseback	1 January 2024
Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
Amendments to HKAS 7 and HKFRS 7 – Supplier Finance Arrangements	1 January 2024
Amendments to HKAS 21 – Lack of Exchangeability	1 January 2025
Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA

The directors of the Company anticipate that the application of all other amendments to HKFRSs will not have material impact on the consolidated financial statements in the foreseeable future.

4 REVENUE AND SEGMENT REPORTING

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

	2023 <i>HK\$’000</i>	2022 <i>HK\$’000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
<i>Disaggregated by major products or service lines</i>		
Revenue recognised at a point in time		
– Sales of wearable smart helmets	3,287	5,159
– Sales of metal components products	22,693	–
Revenue recognised over time		
– Sales of artificial intelligent coverage system and related products	56,526	40,907
– Provision of technical support services based on AI technology	633	6,457
	<u>83,139</u>	<u>52,523</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 2023 and 2022 and the expected timing of recognising revenue as follows:

	2023 <i>HK\$’000</i>	2022 <i>HK\$’000</i>
Within one year	<u>–</u>	<u>14,561</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*	
	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
PRC	83,139	31,305	653,756	626,742
Hong Kong	–	20,404	–	–
Others	–	814	–	–
	83,139	52,523	653,756	626,742

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

Information about major customers

Revenue from customers contributing 10% or more of the total revenue of the Group for the years ended 31 December 2023 and 2022:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Customer 1	32,577	11,155
Customer 2	26,617	N/A [#]
Customer 3	19,529	–
Customer 4	–	20,404
Customer 5	–	7,174
Customer 6	–	6,457

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

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

	<i>Note</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Other income			
Government grants	(a)	278	85
Consultancy service income		215	172
Dividend income from financial assets at FVOCI		–	8,819
Rental income from investment properties		2,036	2,250
Sundry income		225	276
		<u>2,754</u>	<u>11,602</u>
Other gains/(losses), net			
Exchange loss, net		(1,631)	(4,362)
Gain/(loss) on deregistration of subsidiaries		11,749	(689)
Gain on disposal of property, plant and equipment		1,344	483
Property, plant and equipment written off		(104)	(1,536)
Other receivables written off		(1,256)	–
Fair value losses on financial assets at FVPL		(605)	(19,472)
Trade and other payables written back		1,701	5,223
Others		(329)	(2,918)
		<u>10,869</u>	<u>(23,271)</u>

Note:

- (a) Government grants represented cash subsidies received from the PRC local government for the Group's research and development activities during the years ended 31 December 2023 and 2022. There are no unfulfilled conditions or contingencies relating to such government grant income.

6 OPERATING LOSS

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

	<i>Note</i>	2023 HK\$'000	2022 <i>HK\$'000</i>
Employee benefit expenses		23,589	31,646
Cost of inventories sold		67,994	39,236
Cost of services		469	2,461
Amortisation of intangible assets (included in research and development expenses)		150	158
Amortisation of right-of-use assets		2,461	5,284
Auditor's remuneration		1,300	1,300
Gain on disposal of property, plant and equipment		(1,344)	(483)
Property, plant and equipment written off		104	1,536
Depreciation of property, plant and equipment		45	553
Depreciation of investment properties		4,679	4,922
Direct operating expenses of investment properties that generate rental income (excluding depreciation)		639	825
Lease payments not included in the measurement of lease liabilities		68	668
Impairment loss on trade receivables	<i>12</i>	5,872	3,328
Impairment loss on contract assets	<i>12</i>	530	123

Cost of inventories sold includes employee benefit expenses of approximately HK\$9,899,000 (2022: HK\$4,523,000) which are included in the amounts disclosed separately.

7 FINANCE INCOME, NET

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Finance income		
Interest income:		
– Short term and time deposits	<u>2,423</u>	<u>2,404</u>
Finance costs		
Interest expenses:		
– Lease liabilities	(9)	(66)
– Bank borrowings	<u>(9,208)</u>	<u>(11,541)</u>
	(9,217)	(11,607)
Amounts capitalised into construction in progress	<u>9,084</u>	<u>11,512</u>
	(133)	(95)
Finance income, net	<u>2,290</u>	<u>2,309</u>

8 INCOME TAX EXPENSE

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current income tax		
PRC Corporate Income Tax	<u>–</u>	<u>–</u>

Hong Kong profits tax is calculated at 16.5% (2022: 16.5%) on the estimated assessable profits for the year. No Hong Kong profits tax has been provided for both years as the Group has no assessable profit derived in Hong Kong.

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

9 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:

Loss figures are calculated as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Loss for the purpose of basic and diluted loss per share for the year attributable to owners of the Company	<u>(7,295)</u>	<u>(67,912)</u>

Number of shares are calculated as follows:

	2023 <i>'000</i>	2022 <i>'000</i> (Restated)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>615,693</u>	<u>615,693</u>

For the years ended 31 December 2023 and 2022, the computation of diluted loss per share does not assume the exercise of the outstanding shares options issued because the exercise price of these options was higher than the average market price of the Company's shares.

The weighted average number of shares for calculating basic and diluted loss per share attributable to owners of the Company for the years ended 31 December 2023 and 2022 is adjusted on the assumption that a subsequent share consolidation of every ten existing ordinary share into one consolidated share have been effective in the prior and current year.

10 DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2023, nor has any dividend been proposed since the end of the reporting period (2022: Nil).

11 FINANCIAL ASSETS AT FVOCI

	<i>Note</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Representing:			
Listed equity securities	(a)	724,119	1,080,646
Unlisted equity securities		<u>–</u>	<u>–</u>
		<u>724,119</u>	<u>1,080,646</u>

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

As at 31 December 2023 and 2022, the carrying amounts of the listed equity securities are all denominated in RMB.

Note:

(a) Listed equity securities

As at 31 December 2023, the Group hold 44,693,660 (2022: 56,282,860) ordinary shares of Kuang-Chi Technologies Co., Ltd. (“**KCT**”), representing 2.07% (2022: 2.61%) of the issued ordinary shares of KCT (“**KCT Shares**”). Dr. Liu Ruopeng is the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology Limited holds more than 5% shareholding of KCT. KCT is a company listed on the Shenzhen Stock Exchange. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in financial assets at FVOCI as they believe that recognising short-term fluctuations in these investments in profit or loss would not be consistent with the Group’s strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

During the year ended 31 December 2023, the Group disposed of 11,589,200 ordinary shares of KCT in the open market through a series of transactions, while the proceeds were used for working capital purpose. The net proceeds from disposal were HK\$213,956,000.

12 TRADE AND OTHER RECEIVABLES

	<i>Note</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade receivables		143,040	77,815
Less: allowance for ECL	<i>(b)</i>	<u>(59,164)</u>	<u>(54,786)</u>
Trade receivables, net	<i>(a), (d)</i>	83,876	23,029
Deposits and other receivables	<i>(c), (d)</i>	81,827	24,857
Consideration receivable		8	22
Prepayments to suppliers		1,807	11,619
Other prepayments		1,125	1,783
Value-added tax and other taxes recoverable		<u>17,334</u>	<u>16,541</u>
		<u>185,977</u>	<u>77,851</u>
Analysed as:			
Current assets		106,305	77,851
Non-current assets	<i>(c)</i>	<u>79,672</u>	<u>–</u>
		<u>185,977</u>	<u>77,851</u>

The Group did not hold any collateral over these balances as at 31 December 2023 (2022: Nil).

Notes:

- (a) The following is an aging analysis of trade receivables presented based on the date of invoice and net of allowance as at 31 December 2023 and 2022.

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0 to 90 days	72,289	18,771
91 to 180 days	788	265
181 to 365 days	5,552	331
1 to 2 years	5,137	3,239
2 to 3 years	<u>110</u>	<u>423</u>
	<u>83,876</u>	<u>23,029</u>

The credit terms generally are within 30 days (2022: 30 days).

- (b) Movements in loss allowance account for the trade receivables and contract assets during the years ended 31 December 2023 and 2022 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
Impairment loss recognised	3,328	123	3,451
Currency translation differences	<u>(4,489)</u>	<u>(927)</u>	<u>(5,416)</u>
At 31 December 2022	<u>54,786</u>	<u>10,629</u>	<u>65,415</u>
At 1 January 2023	54,786	10,629	65,415
Impairment loss recognised	5,872	530	6,402
Currency translation differences	<u>(1,494)</u>	<u>(397)</u>	<u>(1,891)</u>
At 31 December 2023	<u>59,164</u>	<u>10,762</u>	<u>69,926</u>

As at 31 December 2023 and 2022, 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\$46,240,000 and HK\$47,586,000 as at 31 December 2023 and 2022, 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 since 2019.

- (c) The other non-current assets comprised of deposits for acquiring the following assets:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
An associate	49,329	–
An investment property	<u>30,343</u>	–
	<u>79,672</u>	–

In August 2023, the Group has entered into an agreement with 中誠欣信息諮詢(深圳)有限公司 (“**Zhong Chengxin**”), a company incorporated in the PRC, to allot 30% interests of the enlarged capital of Zhong Chengxin upon the completion of allotment, at a consideration of RMB45.0 million. Zhong Chengxin is engaged in provision for software development, data analysis and artificial intelligence solutions. During the year, the Group had paid the subscription of HK\$49.3 million in advance, at the date of this announcement, the Group had not yet completed the allotment and obtained the significant influence over Zhong Chengxin.

- (d) The carrying amounts of the Group’s trade receivables are all denominated in RMB, while the carrying amounts of the Group’s deposits and other receivables are mainly denominated in RMB.

13 TRADE AND OTHER PAYABLES

	<i>Note</i>	2023 <i>HK\$’000</i>	2022 <i>HK\$’000</i>
Trade payables	<i>(a), (b)</i>	54,724	28,782
Accrued employee benefits		2,676	4,921
Receipt in advance from disposal of asset classified as held for sale		30,146	–
Value-added tax and other taxes payables		9,579	4,658
Other payables and accruals	<i>(b)</i>	10,704	11,906
Accrued construction costs		13,998	17,582
		121,827	67,849

Notes:

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

	2023 <i>HK\$’000</i>	2022 <i>HK\$’000</i>
0 to 90 days	21,338	15,468
91 to 365 days	8,474	602
Over 1 year	24,912	12,712
	54,724	28,782

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 all denominated in RMB, while the carrying amounts of the Group’s other payables and accruals are mainly denominated in RMB.

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Review and Prospects

The Company and its subsidiaries (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 twelve months ended 31 December 2023 (the “**Year**”), the Group recorded a sale revenue of approximately HK\$ 83.1 million, representing a year-on-year increase of 58.3%, and a net loss of approximately HK\$7.3 million, representing a year-on-year decrease of 89.3%. This was mainly attributable to the continuous growth of the Group’s AI Business, the steady development of its smart helmet business and the rapid development of the newly-added industrial metal components business, which led to an increase in the overall sales revenue and better operating results, as well as an increase in the order book and customer scale. In respect of the overseas investment business, the Group recognised a loss on changes in fair value of approximately HK\$0.6 million (FY2022: a loss on changes in fair value of approximately HK\$19.5 million) from disposal of the Group’s investment in Irisity AB, an overseas listed company, during the Year. On the other hand, through the Group’s optimisation of marketing and sales strategies and effective control over operating expenses, as well as the continuous improvement of internal control and strict implementation of cost reduction and efficiency enhancement, resulted in a significant reduction in selling, operating and administrative expenses.

Core business expansion and application

As a technological innovation enterprise focusing on AI technology, the Group continued to focus on the market development of AI products as well as the in-depth expansion and empowerment of vertical industry sectors through its independently developed core algorithms based on AI and powerful big data platform. At the technical level, on top of its design and development of a series of fundamental AI core algorithms, the Group continued to improve the performance, functional optimisation and iterative upgrading of wearable smart products, as well as customised research and development of smart system solutions. At the application level, the Group continued to explore and attract demands from vertical industries such as public security, industrial testing and smart production management, achieving the expansion of diversified applications as well as industry empowerment and enhancement. Meanwhile, the Group has expanded into the industrial metal components business during the Year. The in-depth expansion of this business direction will help enhance the Group’s design and integration capabilities of products and comprehensive solutions in the relevant industrial fields, and further develop the Group’s in-depth understanding of the relevant industries and fields, thereby helping promote the implementation of application scenarios in the relevant fields.

The Group's AI Business is mainly a customised system development business, of which the smart industrial testing business is a focused direction of expansion. The customised system development business is based on the core algorithms of AI and big data analysis platform, and customised design and development are carried out according to the pain points of customers' needs in a targeted manner, so as to provide products and integrated solutions that meet the requirements of industry specifications. The smart industrial testing business is the Group's independently developed smart industrial inspection system platform and smart factory solutions, which are highly targeted, adaptable, fast and efficient. During the Year, the Group has completed the testing and delivery of some of the production process smart control and industrial equipment smart inspection according to the needs of customers in Guangdong and other places, greatly improving the operational efficiency and equipment utilisation rate of the factories.

The Group has taken the design, process and manufacture of metal components as a new direction of expansion. With the focus on channels and human resources accumulated in the fields of historical aircraft and aerostats, this business has developed rapidly in a short period of time, and now houses some advanced equipment and a team of decent size, and has large-scale production and manufacturing capabilities. The Group's smart helmet products are mainly divided into two categories, namely smart police helmets and smart firefighting helmets. During the Year, the Group carried out functional optimisation of the integrated solution for smart police helmets, and continued to expand its market share in Shandong, Tibet, Jiangsu and other regions, and formed potential customer targets or channels in Hunan, Hainan, Heilongjiang, etc. Meanwhile, the Group's independently developed smart firefighting helmet project made significant progress and became the first firefighting helmet product ever included in the catalogue of innovative products at the China Fire (北京國際消防展). At present, a number of potential customers have been formed for the smart firefighting helmets, which, through on-site product testing, have received unanimous favourable comments from firefighting units in various regions. In view of their necessity in scenario applications, we believe that there will be a huge demand for firefighting helmets in the future.

With the solid development of the Group's core business and the continuous expansion of the application scenarios of its smart products and integrated solutions in various sectors including public security, emergency firefighting, industrial manufacturing and inspection, the Group will continue to accelerate the establishment of AI-driven new quality productivity, and the in-depth fusion of AI algorithms and big models with the manufacturing enterprises, thereby becoming a key enabler for the digitisation of the industry. The management of the Group will, as always, uphold the philosophy of strategic stability and innovative development, adhere to the customer-centric, quality-oriented principle, and strengthen internal management optimisation and marketing efforts, in an ongoing effort to improve the competitiveness and market share of the Group.

Manpower Development

With regard to manpower development, the Company strengthened the innovative talent training system and development mechanism to enhance the quality of the talent pool. The Group will uphold the key strategy of attracting and nurturing high-calibre and innovative employees, and introduce high-tech talents in AI algorithms, big data, electronic information, industrial design, smart manufacturing engineering, and other related fields from around the world. As of 31 December 2023, the Group had 128 full-time and part-time employees and consultants. The Group provides employees with competitive remuneration packages, including the share option scheme. The Group also provides attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

FINANCIAL REVIEW

Revenue and operating performance

The Group's revenue increased from approximately HK\$52.5 million for FY2022 to approximately HK\$83.1 million for the Year, an increase of approximately HK\$30.6 million or 58.3%. The increase was mainly due to the continuous growth of the Group's AI Business, the steady development of its smart helmet business and the rapid development of the newly-added industrial metal components business, which led to an increase in the overall sales revenue and better operating results, as well as an increase in the order book and customer scale.

The net loss of the Group significantly decreased by approximately HK\$60.6 million from approximately HK\$67.9 million for FY2022 to approximately HK\$7.3 million for the Year. Compared with the same period last year, the decrease in net loss was mainly attributable to:

- (i) During the Year, the Group disposed of its equity in Irisity AB, an overseas listed company, and recognised a loss on changes in fair value of approximately HK\$605,000 (FY2022: HK\$19,472,000);
- (ii) During the Year, the Group improved its marketing strategy and further reduced its operating expenses through effective control, with a significant decrease in selling and marketing expenses of approximately HK\$19,699,000; and
- (iii) During the Year, the Group continuously enhanced its internal control, strictly cut costs and increased efficiency, resulting in a significant decrease in administrative expenses of approximately HK\$10,025,000.

Other results

On 22 April 2021, the Company granted 27,000,000 new share options to certain eligible employees under the share option scheme adopted by the Company on 31 July 2012, and the relevant share-based payment expenses for the Year were approximately HK\$351,000 (FY2022: HK\$587,000).

CAPITAL STRUCTURE

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

Pursuant to the special general meeting held by the Company on 29 January 2024, an ordinary resolution was passed to approve the Share Consolidation where every ten (10) issued and unissued ordinary shares with a par value of HK\$0.01 each in the share capital of the Company be consolidated into one (1) ordinary share with a par value of HK\$0.10 each. The Share Consolidation took effect on 31 January 2024. Details please refer to the Company's announcements dated 21 December 2023 and 29 January 2024, and circular dated 12 January 2024.

As at 31 December 2023, the balance of issued ordinary shares was 6,156,928,860. After 31 January 2024, the balance of issued ordinary shares was 615,692,886.

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2023, the total shareholders' funds of the Group amounted to approximately HK\$1,493,837,000 (2022: HK\$1,616,997,000), the total assets of approximately HK\$1,828,250,000 (2022: HK\$1,979,687,000) and the total liabilities of approximately HK\$334,403,000 (2022: HK\$362,690,000).

As at 31 December 2023, the Group had bank balances, time deposits and cash of approximately HK\$258,065,000 (2022: HK\$162,948,000) and the pledged bank deposits of approximately HK\$868,000 (2022: HK\$894,000). The gearing ratio as of 31 December 2023, is calculated as net debt divided by total capital, defined as the percentage of the total interest-bearing debt, including lease liabilities and bank borrowings of approximately HK\$nil (2022: HK\$318,000) and HK\$115,499,000 (2022: HK\$141,422,000), respectively to total capital, was not applicable (2022: Nil) due to net cash.

As at 31 December 2023, the Group's total bank borrowings of approximately HK\$115,499,000 (2022: HK\$141,422,000), of which approximately HK\$21,924,000 (2022: HK\$22,562,000) and HK\$93,575,000 (2022: HK\$118,860,000) will be repayable within one year and after one year respectively, carried interest rate at the floating rates from 6.25% to 7.00% (2022: 6.35% to 7.35%) per annum.

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

PLEDGE OF ASSETS

As at 31 December 2023, the right-of-use assets amounted to HK\$69,082,000 (2022: HK\$73,320,000) and construction-in-progress amounted to HK\$443,079,000 (2022: HK\$437,400,000) were pledged for the Group's bank borrowings. The bank deposits amounted to HK\$868,000 as at 31 December 2023 (2022: HK\$894,000) were pledged for the construction work and service contracts.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

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

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

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

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

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

The Group disposed of a total of 11,589,200 KCT shares (“**KCT Disposal in 2023**”) on the open market through a series of transactions during the period from 9 February 2023 to 24 July 2023, at the aggregate consideration of approximately RMB202,625,000. The average selling price of KCT Disposal in 2023 was approximately RMB17.48. After the KCT Disposal in 2023, the net sale proceeds were approximately HK\$213,956,000, the Group recognised a fair value gain of approximately HK\$5,933,000 for the KCT Disposal in 2023 in other comprehensive income for the Year.

As at 31 December 2023, the Group held 44,693,660 ordinary shares of KCT, which represented approximately 2.07% of the KCT issued shares. As at 31 December 2023, the carrying amount of the share of KCT is HK\$724,119,000 (2022: HK\$1,080,646,000), which represented 39.6% (2022: 54.6%) of the total assets of the Group.

For the Year, the fair value loss, net of tax of HK\$97.9 million (FY2022: HK\$377.2 million) was recognised in other comprehensive income.

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

EVENT AFTER THE REPORTING YEAR

Pursuant to the special general meeting held by the Company on 29 January 2024, an ordinary resolution was passed to approve the Share Consolidation where every ten (10) issued and unissued ordinary shares with a par value of HK\$0.01 each in the share capital of the Company be consolidated into one (1) ordinary share with a par value of HK\$0.10 each. The Share Consolidation took effect on 31 January 2024. Details please refer to the Company's announcements dated 21 December 2023 and 29 January 2024, and circular dated 12 January 2024.

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

FUTURE PLANS FOR MATERIAL INVESTMENT

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2023, the Group had approximately 128 employees (2022: 67 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 C1 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 F.2.2 of the CG Code, the Company has complied with the CG Code during the year 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.

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

During the Year, 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, nor had any dividend been proposed for the Year (FY2022: 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 C3 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.

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 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. 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 as set out in this announcement have been compared and agreed by the Company's external auditor, RSM Hong Kong, to the amounts set out in the audited consolidated financial statements of the Group for the Year. 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 2023 ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.kuangchiscience.com), respectively. The Company will dispatch the annual report of the Company for the Year 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, 27 March 2024

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. Wu Zhili.