

KUANGCHI SCIENCE LIMITED

Incorporated in Bermuda with limited liability

Stock Code: 439

2022 Interim Report



CONTENTS

Corporate Information	2
Management Discussion and Analysis	4
Directors' and Chief Executives' Interests in Shares	12
Substantial Shareholders' Interests in Shares	14
Corporate Governance and Other Information	16
Condensed Consolidated Statement of Profit or Loss	18
Condensed Consolidated Statement of Comprehensive Income	19
Condensed Consolidated Statement of Financial Position	20
Condensed Consolidated Statement of Changes in Equity	22
Condensed Consolidated Statement of Cash Flows	24
Notes to the Interim Condensed Consolidated Financial Information	25

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Liu Ruopeng (*Chairman*)

Dr. Luan Lin (*Chief Executive Officer & Chief Technology Officer*)

Dr. Zhang Yangyang

Dr. Ji Chunlin

Non-executive Director

Mr. Li Chiu Ho

Independent Non-executive Directors

Dr. Wong Kai Kit

Mr. Choi Wing Koon

Dr. Deng Ke

AUDIT COMMITTEE

Mr. Choi Wing Koon (*Chairman*)

Dr. Wong Kai Kit

Dr. Deng Ke

REMUNERATION COMMITTEE

Dr. Wong Kai Kit (*Chairman*)

Dr. Zhang Yangyang

Dr. Deng Ke

NOMINATION COMMITTEE

Dr. Liu Ruopeng (*Chairman*)

Dr. Wong Kai Kit

Dr. Deng Ke

COMPANY SECRETARY

Mr. Cheng Chi Chung Kevin

AUDITOR

RSM Hong Kong

Certified Public Accountants

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Lee Garden Two

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Hong Kong

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CORPORATE INFORMATION

REGISTRARS

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Bermuda

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Hamilton HM 11
Bermuda

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank
PingAn Bank Co., Ltd.

STOCK CODE

439

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW AND PROSPECTS

The Company and its subsidiaries (collectively, the “Group”) are mainly engaged in the development of AI technology and related innovative products and provision of AI technology services and related solutions in various vertical fields (“AI Business”). For the six months ended 30 June 2022 (the “Period”), the Group recorded total revenue of approximately HK\$30.9 million, net loss of HK\$38.5 million and gross profit margin of 20.6%. Compared with the same period last year, the increase in loss was mainly due to the net loss of HK\$15.4 million arising from the change in fair value of the Group’s investment in Irisity AB, an overseas listed company.

The revenue of the Group increased by 121%, which is equivalent to HK\$16.9 million, over the Comparative Period, mainly due to the increase in sales of AI system solutions. The Group believes that with the delivery, deployment and operation of integrated solutions tailored and developed according to the needs of various vertical industries, there remains huge unmet intensive needs of industrial customers. Additionally, the Group has also gained good momentum by offering solutions for problems common among different industries and this laid a technical foundation for the Group’s cross-industry business expansion.

The Company will continue the research and development of underlying core AI technologies with the aim to provide customers in various vertical industries with AI technologies, products, functional modules and integrated solutions. The Company believes that with the development and popularity of 5G network and AI technologies and the growing application of data analysis, smart factory and other services in 2022, the Company’s AI products and integrated solutions business will see gradual improvement and development.

INTENSIVELY EXPANDING APPLICATIONS IN DIVERSE MARKETS AND INDUSTRIES

The Group has long focused on AI technology, including the research, development, delivery and deployment of big data collection and analysis platforms based on AI algorithms and application in vertical industries. The Group has developed a variety of smart software and hardware products, algorithm functional modules and integrated solutions, and provided tailored services in relation to development, system integration, installation, debugging, operation and maintenance according to customers’ needs. On one hand, the Group is committed to the research, development, continuous updating and iterative operation of the underlying AI technology. On the other hand, with the underlying technology as its core competitiveness, the Group accumulates and continuously develops application scenarios for specific vertical industries.

By conducting analysis and gaining insights into the problems faced by potential customers in different industries, the Group designs and develops AI algorithm functions according to the needs and pain points of customers. Meanwhile, the Group continuously upgrades and enhances its intelligent algorithms, system application modules and platforms based on the feedback of industry applications accumulated in the early stage, and provides products or integrated solutions that can be well integrated into customers’ business processes and meet industry standards.

MANAGEMENT DISCUSSION AND ANALYSIS

Currently, the Group has designed and developed a series of underlying core AI algorithms, smart wearable products, functional modules and system management platforms for vertical industry applications. During the Period, at the technical level, the Group continuously improved the performance of algorithm software, enhanced functions, upgraded iterative operation, and carried out tailored research and development of new intelligent products; at the application level, the Group constantly gained access to and guided the needs in the vertical fields of public security, health and epidemic prevention that have been served by the Group. In addition, the Group expanded applications to a variety of fields such as industrial testing, intelligent production management and intelligent data analysis, so as to empower and improve the performance of various industries.

In the field of public security, health and epidemic prevention, the Group's smart helmets have been sold in various places nationwide, and its use on a regular basis has received wide recognition from local public security authorities. The Group's smart helmets have officially become a police equipment item on the procurement list of the government procurement office of the Ministry of Public Security, which paves way for further expanding the scope of use and shortening the procurement process of the Group's smart helmets. In the field of health and epidemic prevention, during the Period, the Group improved its smart anti-COVID helmet which it innovated, and added the enhancement algorithm for AR display energy consumption and recognition algorithm for partial masking. Given the constant mutation and ongoing spread of COVID-19 around the world, temperature measurement for people who enter and leave public areas such as schools, hospitals, supermarkets, parks or public transport vehicles is still one of the most important measures to prevent and control COVID-19. Customers from home and abroad have continued to purchase the smart anti-COVID helmet as one of the anti-COVID supplies as it can perform contactless temperature measurement instantly in areas with heavy traffic and wide coverage and raise an alarm when it detects anomalies.

In the field of smart industry and testing, the smart industrial testing system platform and smart factory solutions developed by the Group can closely cater for customer needs. The smart industrial testing system platform and smart factory solutions of the Group are characterised by its full dimensional planning, full area coverage, full process visual features and smart protection. During the Period, the Group was engaged by industrial application customers in Shanghai and Guangdong, and completed the research and development of functional modules and algorithms in relation to smart control of production process and smart testing of industrial equipment. Currently, certain functional modules are being tested and deployed to improve the operating efficiency and equipment usage rate of the factories involved. In the field of data analysis services, the Group has updated and enhanced big data acquisition, video analysis, data screening, data link, and iterative operation of analysis algorithms for specific object action. Through conducting identification, analysis and collation of the big data of vertical application industries, the Group has developed visual expression, deduction process and dynamic sorting services, and promoted the integration of industry data and modern AI technology through digital innovation. The data analysis services developed and provided by the Group have been applied to customer action analysis and e-commerce precision marketing, in a bid to improve service efficiency and customer experience. At the same time, the data analysis services are also applied to the whole-process control of smart factories to increase the usage rate of various production factors, reduce the operating costs and improve the operating efficiency of factories.

MANAGEMENT DISCUSSION AND ANALYSIS

As the Group's smart products and integrated solutions are increasingly applied in vertical fields such as public security, smart industrial testing and data analysis, the Group continues to promote the in-depth integration of the new generation of AI with various vertical industries and explore new applications and business opportunities. On one hand, the Group continues the development, upgrading and iterative operation of existing products and solutions, such as the design and development of a new generation of smart helmet products integrating 5G technologies to provide industry customers with multi-dimensional and in-depth data analysis services and improve the application value of data. On the other hand, the Group is also accelerating the research, development and launch of new products and solutions in the newly expanded industries. During the Period, the epidemic resurged in Shanghai, Shenzhen and other places in China, and local governments adopted strict epidemic control measures. As a result, the Group's engagement with industrial customers in the Yangtze River Delta and the Pearl River Delta regions and the testing and delivery of product solutions were affected to a certain extent. The management of the Group believes that as 5G network, cloud computing, big data and other technologies develop, the AI industrial chain, innovation chain and value chain created by the Group will penetrate into the transformation and intelligent upgrading of more production and life scenarios, and the Group will create more industrial value for vertical industries while pursuing its own development goals.

MANPOWER DEVELOPMENT

Guided by the innovation-driven development strategy, the Group regards it a major strategic goal to attract and cultivate excellent and innovative talents when it comes to talent training and nurturing. The Group has introduced high-tech talents in related fields such as AI algorithms, big data, software engineering and electronic information to establish an innovative talent training system and development mechanism around the world. As at 30 June 2022, the Group had 86 employees, of whom approximately 19.1% have a master's degree or above. They lay a solid foundation for the Group's innovation and development in its main business.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the Period (2021: 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 2022, the Company has issued 6,156,928,860 ordinary shares. The Group finances its working capital requirements through a combination of funds generated from operations and borrowings. The Group had cash and cash equivalents of HK\$213,048,000 as at 30 June 2022, a decrease of HK\$84,142,000 as compared to 31 December 2021.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2022, the Group's total shareholders' funds amounted to approximately HK\$1,715,780,000 (31 December 2021: HK\$2,224,046,000). Total assets were approximately HK\$2,120,039,000 (31 December 2021: HK\$2,769,720,000) and total liabilities were approximately HK\$404,259,000 (31 December 2021: HK\$545,674,000).

As at 30 June 2022, the Group had cash and cash equivalents of approximately HK\$213,048,000 (31 December 2021: HK\$297,190,000) and pledged bank deposits of approximately HK\$926,000 (31 December 2021: HK\$1,679,000). The gearing ratio as of 30 June 2022, 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\$631,000 (31 December 2021: HK\$957,000) and HK\$158,564,000 (31 December 2021: HK\$177,997,000), respectively to total capital, was not applicable (31 December 2021: nil) due to net cash.

As at 30 June 2022, the Group's total bank borrowings of approximately HK\$158,564,000 (31 December 2021: HK\$177,997,000), of which approximately HK\$23,428,000 (31 December 2021: HK\$24,490,000) and HK\$135,136,000 (31 December 2021: HK\$153,507,000) 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 2021: 6.7% to 7.4%) per annum.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2022, the total available banking facilities granted to the Group were HK\$391,994,000 (31 December 2021: HK\$346,460,000), of which nil (31 December 2021: nil) was 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 2022 are set out in note 22 to the condensed consolidated financial information.

PLEDGE OF ASSETS

As at 30 June 2022, the right-of-use assets amounted to HK\$77,290,000 (31 December 2021: HK\$82,003,000) and construction-in-progress amounted to HK\$438,433,000 (31 December 2021: HK\$446,905,000) were pledged for the Group's bank borrowings. The bank deposits amounted to HK\$926,000 as at 30 June 2022 (31 December 2021: HK\$1,679,000) were pledged for the construction work and service contracts.

CONTINGENT LIABILITIES

As at 30 June 2022, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2022, the Group held 56,282,860 ordinary shares of KCT, which represented approximately 2.61% of the KCT issued shares. As at 30 June 2022, the carrying amount of the share of KCT is HK\$1,138,607,000 (31 December 2021: HK\$1,654,730,000, after KCT Disposal), which represented 53.7% (31 December 2021: 59.7%, after KCT Disposal) of the total assets of the Group. No dividend from KCT for the six months ended 30 June 2022 (31 December 2021: Nil) was received by the Group.

For the six months ended 30 June 2022, the fair value loss of HK\$377.7 million (30 June 2021 fair value loss: HK\$82.7 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 Period.

EVENT AFTER THE REPORTING PERIOD

There was no material event occurred after the Period.

FUTURE PLANS FOR MATERIAL INVESTMENTS

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2022, the Group had approximately 86 employees (31 December 2021: 90 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. Moreover, the Group provides employees with relevant training courses based on their personal career development.

MANAGEMENT DISCUSSION AND ANALYSIS

SHARE OPTION SCHEMES

Share Option Scheme of the Company

The Company maintains a share option scheme of the Company (“Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Details about the terms of the Share Option Scheme were disclosed in note 24 to the condensed consolidated financial statements.

Movement of options granted under the Share Option Scheme is as follows:

Category of participant	Date of Grant	Exercise price HK\$	Exercisable period ⁽¹⁾	Outstanding	Granted during the Period	Exercised during the Period	Lapsed during the Period	Outstanding
				as at 1 January 2022				as at 30 June 2022
Employees	22.4.2021	0.229	22.4.2021-21.4.2026 ⁽²⁾	23,370,000	-	-	-	23,370,000

- 1) Vesting of the share options is conditional upon the achievement of certain performance targets as set out in respective offer letters.
- 2) Commencing from the first, second and third anniversaries of the date of grant of the options, the relevant grantee may exercise up to 33%, 33% and 34% respectively of the options granted.

No further options were granted under the Share Option Scheme on or after 31 July 2022 as the right to do so terminated on the same day.

Save as disclosed above, no share options were granted, exercised or lapsed during the Period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2022, the following Directors or chief executives of the Company or his associates had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

Name of Director/ Chief executive	Number of Shares Held		Approximate Percentage Of total issued Shares
	Personal Interest	Corporate interests	
Dr. Liu Ruopeng ("Dr. Liu")	–	2,618,500,000 (L) (note 2)	42.53%

Notes:

- "L" represents long position in shares/underlying shares and "S" represents short position in Shares.
- This represents the interests in 2,618,500,000 shares of the Company directly held by two companies: – (1.) 2,618,000,000 shares held by New Horizon Wireless Technology Limited ("New Horizon"), being a wholly-owned subsidiary of Wireless Connection Innovative Technology Limited which is owned as to 51% by Kuang-Chi Innovative Technology Limited and as to 49% by Shenzhen Kuang-Chi Hezhong Technology Limited. Kuang-Chi Innovative Technology Limited is a subsidiary of Shenzhen Dapeng Kuang-Chi Technology Limited, which is in turn a subsidiary of Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership (Limited Liability Partnership) of which Dr. Liu is the controlling shareholder, and Dr. Liu is the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology Limited; and (2.) 500,000 shares held by Sky Aisa Holdings Limited ("Sky Asia"), being a wholly-owned subsidiary of Shenzhen KuangChi Youlu Technology Co., Ltd, which is wholly owned by Shenzhen Kuang-Chi Hezhong Technology Limited, and as mentioned above, Dr. Liu is the controlling shareholder. Accordingly, Dr. Liu is deemed to be interested in the same number of shares of the Company held by New Horizon and Sky Asia respectively.
- As of 30 June 2022, the issued shares of the Company were 6,156,928,860.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

Save as disclosed above, as at 30 June 2022, no interests or short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or chief executive of the Company or their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2022, the following shareholders had interests, directly or indirectly, or short positions in the shares and underlying shares of the Company would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Substantial Shareholder	Capacity	Number of Shares held	Approximate percentage of total issued Shares
Ms. Huang Weizi	Interest of spouse	2,618,500,000 (L) (note 2)	42.53%
New Horizon	Beneficial owner	2,618,000,000 (L)	42.52%
Wireless Connection Innovative Technology Limited	Interest of controlled corporation	2,618,000,000 (L)	42.52%
深圳大鵬光啟科技有限公司 (*Shenzhen Dapeng Kuang-Chi Technology Limited)	Interest of controlled corporation	2,618,000,000 (L)	42.52%
深圳大鵬光啟聯眾科技合夥企業(有限合夥)(*Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership (Limited Liability Partnership))	Interest of controlled corporation	2,618,000,000 (L)	42.52%
深圳光啟合眾科技有限公司 (*Shenzhen Kuang-Chi Hezhong Technology Limited)	Interest of controlled corporation	2,618,500,000 (L)	42.53%
深圳光啟創新技術有限公司 (*Shenzhen Kuang-Chi Innovative Technology Limited)	Interest of controlled corporation	2,618,000,000 (L)	42.52%
Central Faith International Ltd.	Beneficial owner and interest of controlled corporation	972,981,013 (L)	15.80%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

Name of Substantial Shareholder	Capacity	Number of Shares held	Approximate percentage of total issued Shares
World Treasure Global Limited (note 3)	Beneficial owner	618,981,013 (L)	10.05%
Ye Cheng (note 4)	Interest of controlled corporation	347,471,988 (L)	5.64%

* *For identification purpose only*

Notes:

1. "L" represents long position in shares/underlying shares and "S" represents short position in Shares.
2. This represents the interest in the shares of the Company held by New Horizon and Sky Asia. Ms. Huang Weizi ("Ms. Huang"), being the spouse of Dr. Liu, is deemed to be interested in the same number of Shares held by New Horizon and Sky Asia.
3. World Treasure Global Limited is a wholly owned subsidiary of Central Faith International Ltd.
4. Mr. Ye Cheng is the sole owner of Cutting Edge Global Limited which have direct interest on 206,818,877 shares and LUCKY TIME GLOBAL LIMITED which have direct interest on 140,653,111 shares.
5. Based on the disclosure of interests' forms submitted by the substantial shareholders respectively as of 30 June 2022.
6. As of 30 June 2022, the issued shares of the Company were 6,156,928,860.

Save as disclosed above, as at 30 June 2022, the Company was not aware of any other person (other than the Directors or chief executives of the Company) who had an interest, directly or indirectly, or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

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 Provisions F.2.2 of the CG Code, the Company has complied with the CG Code during the six months ended 30 June 2022 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 22 June 2022 due to other business commitments. In this respect, Dr. Luan Lin, the Chief Executive Officer and 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CHANGE OF DIRECTORS' INFORMATION

There is no change in Director's biographical details since the date of the Annual Report 2021 and up to the date of this report, 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 report, 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 2022. 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 2022

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Notes	Six months ended 30 June	
		2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Revenue	6	30,931	14,001
Cost of sales		(24,554)	(7,878)
Gross profit		6,377	6,123
Other income	7	1,478	2,411
Other (losses)/gains, net	8	(15,103)	2,674
Reversal of impairment loss on other receivables		–	14
(Impairment)/reversal of impairment loss on trade receivables		(1,723)	3,376
Impairment loss on contract assets		–	(4)
Selling and distribution expenses		(13,486)	(9,074)
Research and development expenses		(3,487)	(7,913)
Administrative expenses		(13,472)	(13,368)
Operating loss	9	(39,416)	(15,761)
Finance income		1,007	1,625
Finance costs		(62)	(143)
Finance income, net		945	1,482
Loss before tax		(38,471)	(14,279)
Income tax expense	10	–	–
Loss for the period		(38,471)	(14,279)
Loss for the period attributable to:			
Owners of the Company		(38,471)	(14,279)
Non-controlling interests		–	–
		(38,471)	(14,279)
Loss per share			
Basic (HK cents per share)	12	(0.62)	(0.23)
Diluted (HK cents per share)	12	(0.62)	(0.23)

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 2022

	Six months ended 30 June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Loss for the period	(38,471)	(14,279)
Other comprehensive loss		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(92,646)	(5,577)
<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	(377,711)	(82,744)
Gains on disposal of financial assets at fair value through other comprehensive income	–	48,061
Other comprehensive loss, net of tax	(470,357)	(40,260)
Total comprehensive loss for the period	(508,828)	(54,539)
Total comprehensive loss for the period attributable to:		
Owners of the Company	(508,828)	(54,539)
Non-controlling interests	–	–
	(508,828)	(54,539)

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 2022

	Notes	30 June 2022 HK\$'000 (unaudited)	31 December 2021 HK\$'000 (audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	13	438,845	449,390
Investment properties		122,557	130,355
Right-of-use assets	14	78,006	85,377
Intangible assets	15	313	411
Financial assets at fair value through other comprehensive income	16	1,138,607	1,654,730
Total non-current assets		1,778,328	2,320,263
CURRENT ASSETS			
Inventories		13,551	8,537
Contract assets		–	–
Trade and other receivables	17	108,109	120,563
Financial assets at fair value through profit or loss	18	6,077	21,488
Loan receivables	19	–	–
Pledged bank deposits		926	1,679
Cash and cash equivalents		213,048	297,190
Total current assets		341,711	449,457
Total assets		2,120,039	2,769,720

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2022

	Notes	30 June 2022 HK\$'000 (unaudited)	31 December 2021 HK\$'000 (audited)
EQUITY			
Share capital	20	61,569	61,569
Other reserves	21	2,129,003	2,598,798
Accumulated losses		(474,790)	(436,319)
Equity attributable to owners of the Company		1,715,782	2,224,048
Non-controlling interests		(2)	(2)
Total equity		1,715,780	2,224,046
LIABILITIES			
NON-CURRENT LIABILITIES			
Bank borrowings	22	135,136	153,507
Lease liabilities	14	87	346
Deferred tax liabilities		129,313	204,852
Total non-current liabilities		264,536	358,705
CURRENT LIABILITIES			
Trade and other payables	23	83,078	128,305
Contract liabilities		311	325
Lease liabilities	14	544	611
Deferred government grants		19,317	20,193
Current tax payable		13,045	13,045
Bank borrowings	22	23,428	24,490
Total current liabilities		139,723	186,969
Total liabilities		404,259	545,674
Total equity and liabilities		2,120,039	2,769,720

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Share capital HK\$'000 (Note 20)	Other reserves HK\$'000 (Note 21)	Accumulated losses HK\$'000	Subtotal HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2022	61,569	2,598,798	(436,319)	2,224,048	(2)	2,224,046
Loss for the period	-	-	(38,471)	(38,471)	-	(38,471)
Other comprehensive loss for the period:						
– Currency translation differences	-	(92,646)	-	(92,646)	-	(92,646)
– Changes in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	-	(377,711)	-	(377,711)	-	(377,711)
Total comprehensive loss for the period	-	(470,357)	(38,471)	(508,828)	-	(508,828)
– Recognition of share-based payments	-	562	-	562	-	562
At 30 June 2022 (unaudited)	61,569	2,129,003	(474,790)	1,715,782	(2)	1,715,780

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Share capital HK\$'000 (Note 20)	Other reserves HK\$'000 (Note 21)	Accumulated losses HK\$'000	Subtotal HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2021	61,569	2,413,768	(537,050)	1,938,287	(2)	1,938,285
Loss for the period	–	–	(14,279)	(14,279)	–	(14,279)
Other comprehensive loss for the period:						
– Currency translation differences	–	(5,577)	–	(5,577)	–	(5,577)
– Changes in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	–	(82,744)	–	(82,744)	–	(82,744)
– Gain on disposal of financial assets at fair value through other comprehensive income	–	48,061	–	48,061	–	48,061
Total comprehensive loss for the period	–	(40,260)	(14,279)	(54,539)	–	(54,539)
– Transfer upon disposal of financial assets at fair value through other comprehensive income	–	(56,525)	56,525	–	–	–
– Recognition of share-based payment	–	309	–	309	–	309
At 30 June 2021 (unaudited)	61,569	2,317,292	(494,804)	1,884,057	(2)	1,884,055

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Six months ended 30 June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
CASH FLOW FROM OPERATING ACTIVITIES		
NET CASH USED IN OPERATING ACTIVITIES	(56,506)	(128,513)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(11,212)	(13,379)
Interest received	1,007	1,625
Net proceeds from time deposits	–	740
Purchase of right-of-use assets	–	(50,798)
Purchase of intangible assets	–	(471)
Proceeds from disposal of financial assets at fair value through other comprehensive income	–	463,867
Proceeds from disposal of plant and equipment	1,811	–
Changes in pledged bank deposits	753	–
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(7,641)	401,584
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of bank borrowings	(12,040)	–
Repayment of other borrowing	–	(318,292)
Repayments of lease liabilities	(326)	(590)
NET CASH USED IN FINANCING ACTIVITIES	(12,366)	(318,882)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(76,513)	(45,811)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	297,190	147,812
Effect of foreign exchange rate changes	(7,629)	(459)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	213,048	101,542

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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 of AI technology and related innovative products and provision of AI technology services and related 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 2022. 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 2022 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 2021, 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 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

(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 2022:

Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before intended use
Amendments to HKFRS 3	References to the Conceptual Framework
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 10 and HKAS 28	Annual Improvements to HKFRS Standards 2018-2020

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 2022 and have not been early adopted:

HKFRS 17	Insurance contracts ⁽¹⁾
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁽¹⁾
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ⁽¹⁾
Amendments to HKAS 8	Definition of Accounting Estimates ⁽¹⁾
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transactions ⁽¹⁾
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate and joint venture ⁽²⁾

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

⁽²⁾ Effective date to be determined.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

(b) Impact of standards issued but not yet applied by the Group

(Continued)

Management is assessing the impact of the above amendments to standards and interpretations, which have been issued but are not yet effective for 2022, 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 2021.

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 2021.

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.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 Fair value estimation (Continued)

(a) Fair value hierarchy (Continued)

The following table presents the financial assets and financial liabilities of the Group which are measured and recognised at fair value at 30 June 2022 and 31 December 2021 on a recurring basis:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 30 June 2022				
Financial assets				
Financial assets at fair value through other comprehensive income				
– Listed equity security	1,138,607	–	–	1,138,607
Financial assets at fair value through profit or loss				
– Listed equity securities	6,077	–	–	6,077
	1,144,684	–	–	1,144,684
At 31 December 2021				
Financial assets				
Financial assets at fair value through other comprehensive income				
– Listed equity security	1,654,730	–	–	1,654,730
Financial assets at fair value through profit or loss				
– Listed equity securities	21,488	–	–	21,488
	1,676,218	–	–	1,676,218

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.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 Fair value estimation (Continued)

(a) Fair value hierarchy (Continued)

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	
	2022	2021
	HK\$’000	HK\$’000
From continuing operations		
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– Provision of procurement services	–	2,121
– Sale of artificial intelligent system and related products	22,353	7,412
– Sale of wearable smart helmets	1,880	1,356
– Provision of technical support services based on AI technology	6,698	3,112
	30,931	14,001

6 REVENUE AND SEGMENT INFORMATION (Continued)

(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 external customers		Non-current assets*	
	Six months ended 30 June		30 June	31 December
	2022	2021	2022	2021
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (audited)
PRC	9,683	11,798	639,721	665,533
Hong Kong	20,404	2,121	–	–
Other overseas countries	844	82	–	–
	30,931	14,001	639,721	665,533

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

7 OTHER INCOME

	Unaudited	
	Six months ended 30 June 2022	2021
	HK\$'000	HK\$'000
Government grants	14	1,145
Rental income from investment properties	1,344	811
Sundry income	120	455
	1,478	2,411

8 OTHER (LOSSES)/GAINS, NET

	Note	Unaudited	
		Six months ended 30 June	
		2022	2021
		HK\$'000	HK\$'000
Exchange gains, net		201	2,674
Gain on disposal of property, plant and equipment		107	–
Fair value losses on financial assets at fair value through profit or loss	18	(15,411)	–
		(15,103)	2,674

Note: As at 30 June 2022, the Group held 402,799 Irisity AB shares, which were measured at fair value of approximately HK\$6,077,000. For the six months ended 30 June 2022, a fair value loss of approximately HK\$15,411,000 was recognised in profit or loss.

9 OPERATING LOSS

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Cost of sales	24,554	7,878
Salaries, wages and other benefits	12,604	15,838
Amortisation of intangible assets	83	42
Depreciation of property, plant and equipment	317	1,801
Amortisation of right-of-use assets	3,771	5,826
Directors' emoluments	375	375
Operating lease expenses for office premises and warehouses relating to short-term leases	135	590
Reversal of impairment loss on other receivables	–	(14)
Impairment/(reversal of impairment) loss on trade receivables	1,723	(3,376)
Impairment loss on contract assets	–	4

10 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Current income tax expenses		
Hong Kong profits tax	–	–
PRC Corporate Income Tax	–	–
	–	–

Notes:

- (i) During the six months ended 30 June 2022 and 2021, 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 2022 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% (2021: 25%), except for the PRC subsidiaries established in Qianhai and a PRC subsidiary that was approved as High and New Technology Enterprise which is subject to PRC Corporate Income Tax at a rate of 15% for 3 years from 2019 to 2022 (2021: 15%).

11 DIVIDEND

No dividend was paid, declared or proposed by the Company during the six months ended 30 June 2022 and 2021.

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	
	2022	2021
	HK\$'000	HK\$'000
Loss for the purpose of basic and diluted loss per share	38,471	14,279

	Unaudited	
	Six months ended 30 June	
	2022	2021
	'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 2022 and 2021, the computation of diluted loss per share does not assume the exercise of the outstanding share options of the Company since the assumed exercise would result in a decrease in loss per share.

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Plant and machinery HK\$'000	Furniture and fixture HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST							
At 1 January 2021	8,547	9,114	224	16,799	5,476	401,385	441,545
Additions	-	-	-	4	-	34,542	34,546
Transfer to investment properties	(8,547)	-	-	-	-	-	(8,547)
Disposal	-	-	(4)	(214)	(247)	-	(465)
Currency translation differences	-	249	4	452	127	10,978	11,810
At 31 December 2021 and							
1 January 2022	-	9,363	224	17,041	5,356	446,905	478,889
Additions	-	-	-	-	-	11,212	11,212
Disposal	-	-	(46)	(8,107)	(373)	-	(8,526)
Currency translation differences	-	(406)	(8)	(519)	(191)	(19,684)	(20,808)
At 30 June 2022	-	8,957	170	8,415	4,792	438,433	460,767
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2021	317	8,423	224	12,515	4,951	-	26,430
Depreciation	-	471	-	2,365	187	-	3,023
Transfer to investment properties	(317)	-	-	-	-	-	(317)
Disposal	-	-	(4)	(212)	(148)	-	(364)
Currency translation differences	-	230	4	376	117	-	727
At 31 December 2021 and							
1 January 2022	-	9,124	224	15,044	5,107	-	29,499
Depreciation	-	71	-	165	81	-	317
Disposal	-	-	(46)	(6,403)	(373)	-	(6,822)
Currency translation differences	-	(398)	(8)	(483)	(183)	-	(1,072)
At 30 June 2022	-	8,797	170	8,323	4,632	-	21,922
CARRYING AMOUNTS							
At 30 June 2022	-	160	-	92	160	438,433	438,845
At 31 December 2021	-	239	-	1,997	249	446,905	449,390

14 LEASES

(a) Right-of-use assets

	Leased properties HK\$'000	Leasehold lands HK\$'000	Total HK\$'000
Balance as at 1 January 2022	3,374	82,003	85,377
Amortisation charge	(2,582)	(1,189)	(3,771)
Exchange translation	(76)	(3,524)	(3,600)
Balance as at 30 June 2022 (unaudited)	716	77,290	78,006

(b) Lease liabilities

	Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
Non-current	87	346
Current	544	611
	631	957

(c) Amounts recognised in the condensed consolidated statement of profit or loss

	Unaudited Six months ended 30 June 2022 HK\$'000	2021 HK\$'000
Amortisation of right-of-use assets	3,771	5,826
Interest on lease liabilities	62	13
Expense relating to short-term leases	135	590
	3,968	6,429

15 INTANGIBLE ASSETS

	Technical knowhow and patents HK\$'000
COST	
At 1 January 2021	16,134
Additions	474
Currency translation differences	448
At 31 December 2021 and 1 January 2022	17,056
Currency translation differences	(725)
At 30 June 2022	16,316
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2021	16,066
Amortisation	137
Currency translation differences	442
At 31 December 2021 and 1 January 2022	16,645
Amortisation	83
Currency translation differences	(725)
At 30 June 2022	16,003
CARRYING AMOUNTS	
At 30 June 2022	313
At 31 December 2021	411

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
Listed security:		
– Equity security (note)	1,138,607	1,654,730

Note: As at 30 June 2022, the Group hold 56,282,860 (31 December 2021: 56,282,860) ordinary shares of Kuang-Chi Technologies Co., Ltd. (“KCT”), representing 2.61% (31 December 2021: 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.

17 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
Trade receivables	91,138	117,698
Less: allowance for expected credit loss	(55,204)	(55,947)
Trade receivables, net	35,934	61,751
Deposits and other receivables	23,935	24,943
Consideration receivable	22	15
Prepayment to suppliers	29,081	11,197
Other prepayments	–	2,384
Value-added tax and other tax recoverable	19,137	20,273
	108,109	120,563

The following is an ageing analysis of trade receivables presented based on date of revenue recognition and net of allowance as at 30 June 2022 and 31 December 2021:

	Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
0 to 90 days	11,059	48,966
91 to 180 days	2,263	10,525
181 to 365 days	21,650	–
1 to 2 years	–	–
Over 2 years	962	2,260
	35,934	61,751

17 TRADE AND OTHER RECEIVABLES (Continued)

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

	Trade receivables	Contract assets	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2021	56,721	11,419	68,140
Provision for impairment loss	–	9,484	9,484
Reversals of impairment loss	(2,266)	–	(2,266)
Currency translation differences	1,527	245	1,772
Uncollectible amounts written off	(35)	(9,715)	(9,750)
At 31 December 2021 and 1 January 2022	55,947	11,433	67,380
Provision for impairment loss	1,723	–	1,723
Currency translation differences	(2,466)	–	(2,466)
At 30 June 2022	55,204	11,433	66,637

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
Listed equity securities		
Listed outside Hong Kong	6,077	21,488

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 2022, the financial assets at fair value through profit or loss are denominated in Sweden Krona.

19 LOAN RECEIVABLES

	Notes	Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
Loan to a third party	(a)	2,368	2,368
Less: provision for impairment of loan receivables	(a)	(2,368)	(2,368)
		–	–

Note:

- (a) As at 30 June 2022 and 31 December 2021, the balance represented a loan to Beyond Verbal of HK\$2,368,000, which is unsecured, bearing interest at 6% per annum and mature on 31 March 2018. The loan was fully impaired in 2017 as management considered the recoverability of the loan is remote. No repayment was made by Beyond Verbal during the Period.

20 SHARE CAPITAL

Ordinary shares	Number of shares	Equivalent to HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 1 January 2021		
30 June 2021, 1 January 2022 and 30 June 2022	7,316,666,668	73,167
Issued and fully paid:		
At 1 January 2021, 30 June 2021, 1 January 2022 and 30 June 2022	6,156,928,860	61,569

21 OTHER RESERVES

	Financial assets at fair value through other comprehensive		Capital reserve HK\$'000 (Note a)	Contributed surplus HK\$'000 (Note b)	Share-based	Exchange translation HK\$'000	Total HK\$'000
	Share premium HK\$'000	income reserve HK\$'000			payment reserve HK\$'000 (Note c)		
At 1 January 2022	2,339,550	121,777	17,900	103,941	971	14,659	2,598,798
Currency translation differences	-	-	-	-	-	(92,646)	(92,646)
Fair value changes of financial assets at fair value through other comprehensive income, net of deferred tax	-	(377,711)	-	-	-	-	(377,711)
Other comprehensive loss for the period	-	(377,711)	-	-	-	(92,646)	(470,357)
Recognition of share-based payments	-	-	-	-	562	-	562
At 30 June 2022 (unaudited)	2,339,550	(255,934)	17,900	103,941	1,533	(77,987)	2,129,003

21 OTHER RESERVES (Continued)

	Share premium HK\$'000	Financial assets at fair value through other comprehensive income reserve HK\$'000	Capital reserve HK\$'000 (Note a)	Contributed surplus HK\$'000 (Note b)	Share-based payment reserve HK\$'000 (Note c)	Exchange translation HK\$'000	Total HK\$'000
At 1 January 2021	2,339,550	(21,619)	17,900	103,941	-	(26,004)	2,413,768
Currency translation differences	-	-	-	-	-	40,663	40,663
Fair value changes of financial assets at fair value through other comprehensive income, net of deferred tax	-	225,544	-	-	-	-	225,544
Other comprehensive income for the year	-	225,544	-	-	-	40,663	266,207
Transfer upon disposal of financial assets at fair value through other comprehensive income	-	(82,148)	-	-	-	-	(82,148)
Recognition of share-based payments	-	-	-	-	971	-	971
At 31 December 2021	2,339,550	121,777	17,900	103,941	971	14,659	2,598,798

Notes:

- (a) The balance of capital reserve represents the capital reserve arising from the Group's restructuring which took place in 1992.
- (b) The balance of contributed surplus arose as a result of the Company's capital reduction exercises which took place in the financial years of 2003 and 2006.
- (c) The balance of share-based payment reserve represents share options granted on 22 April 2021.

22 BANK BORROWINGS

	Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
Bank borrowings		
– Within 1 year	23,428	24,490
– Between 1 and 2 years	23,428	24,490
– Between 2 and 5 years	111,708	94,175
– Over 5 years	–	34,842
Total bank borrowings	158,564	177,997

As at 30 June 2022, the bank borrowings carried interest of approximately 6.7% to 7.4% p.a. (31 December 2021: 6.7% to 7.4% p.a.) which were secured by the right-of-use assets and the construction-in-progress, amounting to HK\$77,290,000 (31 December 2021: HK\$82,003,000) and HK\$438,433,000 (31 December 2021: HK\$446,905,000) respectively, and were guaranteed by the Company and a company which is controlled by Dr. Liu Ruopeng.

As at 30 June 2022, the total available banking facilities granted to the Group were approximately HK\$391,994,000 (31 December 2021: HK\$346,460,000), of which HK\$nil (31 December 2021: HK\$nil) were not utilised.

23 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
Trade payables	33,515	48,841
Accrued employee benefits	1,815	7,551
Value-added tax and other tax payable	7,819	11,197
Other payables and accruals	17,786	19,754
Accrued construction costs	22,143	40,962
	83,078	128,305

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

	Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
0 – 90 days	1,537	20,981
91-365 days	21,974	18,179
Over 1 year	10,004	9,681
	33,515	48,841

24 SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 31 July 2012, a share option scheme (the “Scheme”) was adopted by the Company. The purpose of the Scheme is to enable the Company to provide incentive to participants in recognition of their contribution to the Group. The directors of the Company may offer to grant any employee or director of the Company or any adviser, consultant, agent, contractor, customers and supplier of any member of the Group or whom the Board in its sole discretion considers eligible for the Scheme on the basis of his or her contribution to the Group.

On 22 April 2021, a total of 27,000,000 share options under the Scheme were granted (the “Share Options”). The exercise price was HK\$0.229. The details of the Share Options are summarised as follows:

	% of the total shares	Share Options	
		Vesting period	Exercisable period
Tranche 1	33%	22 April 2021 to 22 April 2022	22 April 2022 to 21 April 2026
Tranche 2	33%	22 April 2021 to 22 April 2023	22 April 2023 to 21 April 2026
Tranche 3	34%	22 April 2021 to 22 April 2024	22 April 2024 to 21 April 2026
Share Option			
Recognised as expenses for the six months period ended 30 June 2021 (HK\$)			309,000
Number of Share Options granted to employees of the Company			27,000,000
Exercise price (HK\$)			0.229
Grant date			22 April 2021
Fair value on grant date (HK\$)			2,808,000

24 SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table lists the inputs to the fair value as at 22 April 2021 of the Share Options:

	Share Options
Share price at the date of grant (HK\$)	0.229
Exercise price (HK\$)	0.229
Expected volatility	71%
Expected life (no. of years)	5
Risk-free interest rate	0.602%
Exercise multiple	1.6
Expected dividend yield	Nil

The following table discloses movements of the Company's share options held by employees during the Period:

Option type	Outstanding at 1 January 2022	Granted during the Period	Exercised during the Period	Lapsed during the Period	Outstanding at 30 June 2022
Share Options granted to employees	23,370,000	–	–	–	23,370,000
Total	23,370,000	–	–	–	23,370,000

The Group recognised an expense of approximately HK\$562,000 for the six months period ended 30 June 2022 in relation to Share Options granted by the Company.

25 CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the period/year but not yet incurred is as follows:

	Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
Contracted for Property, plant and equipment	42,496	24,265

26 RELATED PARTY TRANSACTIONS

(a) Related party balances

	Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
Trade payables		
– 深圳光啟超材料技術有限公司 (「深圳光啟超材料」)	87,855	10,565

(b) Related party transactions

Name of parties	Nature of transactions	Unaudited	
		Six months ended 30 June 2022 HK\$'000	2021 HK\$'000
深圳光啟超材料	Purchase of Wearable Smart Helmets and other materials	88	1,745
深圳光啟創新技術有限公司	Purchase of artificial intelligent system and related products	25	–
深圳光啟智能光子技術有限公司	Purchase of artificial intelligent system and related products	195	–

Note:

The Director and controlling shareholder of the Company, Dr. Liu Ruopeng, is a controlling shareholder of 深圳光啟超材料, 深圳光啟創新技術有限公司 and 深圳光啟智能光子技術有限公司. The above transactions were conducted in the normal course of the business of the Company and charged at terms mutually agreed by the parties concerned or in accordance with the terms of the underlying agreements, where appropriate.

Saved as disclosed above and elsewhere in the interim condensed consolidated financial information, there was no other related party transaction during the periods ended 30 June 2022 and 2021.

27 COMPARATIVE FIGURES

Certain comparative figures in these condensed consolidated financial statements were reclassified to conform with the current period's presentation.

28 SUBSEQUENT EVENT

There were no material events occurred after the period ended 30 June 2022.