KUANGCHI SCIENCE LIMITED

Incorporated in Bermuda with limited liability | Stock Code: 439

KUANGCHI 光啟科學

2022 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Liu Ruopeng *(Chairman)*
Dr. Luan Lin
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

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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 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 12 months ended 31 December 2022 (the "**Year**"), the Group recorded a sale revenue of approximately HK$52.5 million and a net loss of approximately HK$67.9 million. The Group's sale revenue decreased year-on-year by 53.9%, mainly due to last year's epidemic prevention and control in China which had disrupted the movement of people and goods resulting in delays in order processing and delivery of some projects of the Group to different extents, which deviated from the original plan. Compared with the same period last year, the increase in the Group's net loss for the period by HK$27.3 million was mainly due to the net loss of approximately HK$19.5 million arising from the change in the fair value of the Group's investment in Irisity AB, an overseas listed company. Meanwhile, the Group further reduced operating expenses through control and optimisation of various costs.

FOCUSING ON KEY INDUSTRIES TO EXPAND APPLICATION SCENARIOS

As of 31 December 2022, the Group had expanded to the fields of intelligent industrial production management by focusing on market development and product iteration and based on the successful delivery of applications in public security and other fields. Based on core AI algorithms and a big data analysis platform, the Group's product team conducts analysis to understand the problems faced by potential customers in different industries, and designs and develops tailored solutions according to customer needs. Based on feedback on large-scale industry applications, the team has further optimised and upgraded algorithms and the algorithm platform to provide products or integrated solutions that meet industry standards and deeply integrate into customers' business processes.

Currently, smart industrial testing is a hotspot area of technological innovation and industrial upgrading. With the ongoing development and application of AI, IoT, cloud computing, big data and other technologies, smart industrial testing plays an increasingly important role in production, manufacturing and quality control. In this context, the Group will continue to strengthen research and investment in smart industrial testing, in an effort to become a leader in specific market segments. Smart industrial testing systems and smart factory solutions should keep up with the customer needs and have the advantages of being highly targeted, adaptable and efficient. During the Year, the Group completed the testing of delivery of the first batch of projects for smart production process control and smart industrial equipment inspection in Guangdong and Chongqing, greatly improving the operational efficiency and equipment utilisation rate of the target factories. At the same time, the Group will continue to meet the customised development needs of customers for smart industrial testing by further exploring applications in more segments and of more modules, consolidating and expanding the scope of products and solutions, and developing more comprehensive and practical smart industrial testing solutions. We believe that with our team's efforts and continuous technological innovation, we will be able to constantly improve capabilities in smart industrial testing and provide customers with high-quality, efficient, and highly customised products and solutions, thus helping them achieve excellent business results.

In core business areas such as public security, the Group's wearable smart helmets have been widely used, providing support for industry user as an efficient and smart tool. Through continuous optimisation and iteration based on customer feedback, the Group's wearable smart helmets have been upgraded with better performance and richer functions. Having been applied in over 50 cities in more than 20 provinces, such products and solutions have been well recognised by customers and received good market feedback. With a focus on the iteration and innovation of technologies and products, the Group will continuously improve the performance and functions of wearable smart products to meet the emerging needs of customers. In addition, the Group will continue to tap the needs of public security and lead the development of the sector, with a view to contributing to social security. At the technical level, the Group will constantly strengthen the design and development of core algorithms to improve the intelligent level and accuracy of products. At the application level, the Group will deeply explore the industrial needs, develop applications and solutions in line with market needs to empower the sector, and provide more convenient services for society.

MANAGEMENT DISCUSSION AND ANALYSIS

With the expansion of application scenarios of the Group's smart terminal products and integrated solutions in verticals such as public security, industrial production and testing and the accumulation of data in relevant sectors, the Group will be able to provide customers with broader and deeper services in more dimensions. Moreover, deeper industry insights will help our team accelerate the research, development and delivery of new products and solutions, and bring business opportunities for the integration of next-generation AI technology into application scenarios in vertical sectors. 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. We will continue to deliver high-quality products and services to customers by developing superior and more efficient solutions.

FINANCIAL REVIEW

Revenue and operating performance

The Group's revenue decreased from approximately HK$114.0 million for the year ended 31 December 2021 ("**FY2021**") to approximately HK$52.5 million for the Year, a decrease of approximately HK$61.5 million or 53.9%. The decrease was mainly due to the order and delivery cycle of some projects of the Group having been delayed because of the epidemic prevention and control in China last year.

The net loss of the Group increased by approximately HK$27.3 million or 67.2% from approximately HK$40.6 million for FY2021 to approximately HK$67.9 million for the Year. Compared with the same period last year, the increase in net loss was mainly due to the net loss of approximately HK$19.5 million arising from the change in fair value of the Group's investment in Irisity AB, an overseas listed company. Meanwhile, the Group has also further optimised its internal operations.

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, and other related fields from around the world. As of 31 December 2022, the Group had 67 employees and consultants, 14 of which have a master's degree or above, representing approximately 20.9%, laying a solid foundation for the Group's innovation and future development.

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$587,000 (2021: HK$971,000).

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

On 22 April 2021, the Board announced that the Company granted share options to certain eligible employees, subject to acceptance by the grantees, to subscribe for a total of 27,000,000 ordinary shares with a par value of HK$0.01 each in the share capital of the Company under the share option scheme adopted by the Company on 31 July 2012. As at 31 December 2022, the balance of issued ordinary shares was 6,156,928,860.

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the total shareholders' funds of the Group amounted to approximately HK$1,616,997,000 (31 December 2021: HK$2,224,046,000), the total assets of approximately HK$1,979,687,000 (31 December 2021: HK$2,769,720,000) and the total liabilities of approximately HK$362,690,000 (31 December 2021: HK$545,674,000).

As at 31 December 2022, the Group had bank balances, time deposits and cash of approximately HK$162,948,000 (31 December 2021: HK$297,190,000) and the pledged bank deposits of approximately HK$894,000 (31 December 2021: HK$1,679,000). The gearing ratio as of 31 December 2022, 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$318,000 (31 December 2021: HK$957,000) and HK$141,422,000 (31 December 2021: HK$177,997,000), respectively to total capital, was not applicable (31 December 2021: Nil) due to net cash.

As at 31 December 2022, the Group's total bank borrowings of approximately HK$141,422,000 (31 December 2021: HK$177,997,000), of which approximately HK$22,562,000 (31 December 2021: HK$24,490,000) and HK$118,860,000 (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 6.35% to 7.35% (31 December 2021: 6.7% to 7.4%) 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.

TREASURY POLICY

The Company continues to adopt a prudent financial management approach towards its treasury policy. The Board will closely monitor the liquidity position to ensure that the liquidity structure of the Company's assets, liabilities and other commitments to meet the funding requirements from time to time.

PLEDGE OF ASSETS

As at 31 December 2022, the right-of-use assets amounted to HK$73,320,000 (2021: HK$82,003,000) and construction-in-progress amounted to HK$437,400,000 (2021: HK$446,905,000) were pledged for the Group's bank borrowings. The bank deposits amounted to HK$894,000 as at 31 December 2022 (2021: HK$1,679,000) were pledged for the construction work and service contracts.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 31 December 2022, a claim was lodged against two subsidiaries of the Group, in relation to unpaid contract work amount together with interest for the construction in progress of approximately HK$17,680,000, by a construction subcontractor. The Group has contested the claim, and while the final outcome of the proceedings is uncertain, it is the directors' opinion that the ultimate liability after accrued construction costs for the contract work, if any, will not have a material impact on the Group's financial position.

Save for disclosed above, the Group had no other material contingent liabilities as at 31 December 2022.

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 disposal of KCT shares was approximately RMB25.30. After the KCT Disposal in 2021, 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2022, the Group held 56,282,860 ordinary shares of KCT, which represented approximately 2.61% of the KCT issued shares. As at 31 December 2022, the carrying amount of the share of KCT is HK$1,080,646,000 (31 December 2021: HK$1,654,730,000, after KCT Disposal in 2021), which represented 54.6% (31 December 2021: 59.7%, after KCT Disposal in 2021) of the total assets of the Group.

For the year ended 31 December 2022, the fair value loss, net of tax of HK$377.2 million (2021: fair value gain, net of tax of HK$157.9 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

The Group disposed of a total of 5,935,600 KCT shares ("**KCT Disposal in 2023**") on the open market through a series of transactions after the Year and up to the date of this report, at the aggregate consideration of approximately RMB107,539,017. The average selling price of disposal of KCT shares was approximately RMB18.12. After the KCT Disposal in 2023, the estimated sale proceeds will be approximately RMB107,539,000, the Group currently expects to recognise a fair value gain of approximately RMB6,515,000 (HK$7,576,000) for the KCT Disposal in 2023 in other comprehensive income for the financial year ending 31 December 2023. Upon the completion of the KCT Disposal in 2023, the Group directly held 50,347,260 ordinary shares of KCT, representing approximately 2.34% of the total issued capital of KCT.

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 report.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group had approximately 67 employees (2021: 90 employees). The Group provides competitive remuneration packages to employees with the share option scheme. The Group also provides attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

During the Year, staff costs, including directors' remuneration, were approximately HK$31,646,000 (2021: HK$47,115,000).

In addition, the Group provided comprehensive training to the employees during the Year, details of which are set out in the paragraph headed "B3: Development and Training" in the ESG Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

KuangChi Science Limited (the "Company"), together with its subsidiaries (the "Group"), is pleased to present this Environmental, Social and Governance Report (the "Report") to provide an overview of the Group's management on significant issues affecting the operation, and the performance of the Group in terms of environmental and social aspects. This Report is prepared by the Group with the professional assistance of APAC Compliance Consultancy and Internal Control Services Limited.

Preparation Basis and Scope

This Report is prepared in accordance with Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") – "Environmental, Social and Governance Reporting Guide" (the "ESG Reporting Guide") and has complied with the "comply or explain" provisions in the Listing Rules.

This Report summarises the performance of the Group in respect of corporate social responsibility, covering its operating activities which are considered as material by the Group – engaged in the development of AI technology and related innovative products and provision of AI technology services and related solutions in various vertical fields in the People's Republic of China ("PRC") and Hong Kong. This Report shall be published both in Chinese and English on the website of the Stock Exchange. Should there be any discrepancy between the Chinese and the English versions, the English version shall prevail.

During the reporting period (as defined below), there is no change in the scope or to the methods or KPIs used, or any relevant factors affecting a meaningful comparison of this Report with the ESG report for the year ended 31 December 2021.

Reporting Period

This Report demonstrates our sustainability initiatives during the reporting period from 1 January 2022 to 31 December 2022.

Contact Information

The Group welcomes your feedback on this Report for our sustainability initiatives. Please contact us at (852) 2292 3900.

INTRODUCTION

The Group is a global high-tech innovation company focusing on expanding human's living space. The nickname "Alien Tech" implies that the Group will bring a better life to human beings with future technologies.

The Group's sustainability management approach is based on the compliance with current legal requirements, the principle of sustainability and stakeholder's engagement. Therefore, we focus on these fields of activity: environment, employment and labour practices, operating practice and community involvement. The Group has established a system to oversee compliance issues that related to environmental, health and safety and quality management. The Group has formulated policies to promote sustainability and manage risks related to these four areas. Details of the management approach in different areas have been explained in respective section of this Report. The Group has recognised the importance of social responsibility. Our commitment includes:

1. Saving lives by providing relief to disaster-stricken and impoverished areas
2. Improving society by making cities smarter
3. Innovating lifestyles for a better tomorrow

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDERS ENGAGEMENT

The Group understands the success of the Group's business depends on the support from its key stakeholders, who (a) have invested or will invest in the Group; (b) have the ability to influence the outcomes within the Group; and (c) are interested in or affected by or have the potential to be affected by the impact of the Group's activities, products, services and relationships. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

Stakeholders are prioritised from time to time in view of the Group's roles and duties, strategic plan and business initiatives. The Group engages with its stakeholders to develop mutually beneficial relationships and to seek their views on its business proposals and initiatives as well as to promote sustainability in the marketplace, workplace, community and environment.

The Group acknowledges the importance of intelligence gained from the stakeholders' insights, inquiries and continuous interest in the Group's business activities. The Group has identified key stakeholders that are important to our business and established various channels for communication. The following table provides an overview of the Group's key stakeholders, and various platforms and methods of communication are used to reach, listen and respond.

Stakeholders	Expectations of Concern	Engagement channels	Measures
Government and regulatory authorities	– Comply with the laws and regulations – Proper tax payment – Promote regional economic development and employment	– On-site inspections and checks – Annual reports and announcements – Group websites	– Operated managed and paid taxes according to laws and regulations, strengthened safety management accepted the government's supervision, inspection and evaluation (e.g. accepted 1-2 on-site inspections throughout the year), and actively undertook social responsibilities
Shareholders and Investors	– Low risk – Return on the investments – Information disclosure and transparency – Protection of interests and fair treatment of shareholders – Comply with the laws and regulations	– Annual general meetings and other shareholder meetings – Annual reports and announcements – Group websites	– Issued notice of general meeting and proposed resolutions according to regulations, disclosed company's information by publishing announcements/ circulars and three periodic reports in total in the year. Carried out different forms of investor activities with an aim to improve investors' recognition. Held results briefing once. Disclosed company contact details on website and in reports and ensured all communication channels are available and effective

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders	Expectations of Concern	Engagement channels	Measures
Employees	– Safeguard the rights and interests of employees – Good working environment – Career development opportunities – Occupational health and safety – Self-actualisation	– Meetings and conferences – Training, seminars, briefing sessions – Cultural and sport activities – Intranet and emails	– Provided a healthy and safe working environment; developed a fair mechanism for promotion; established labor unions at all levels to provide communication platforms for employees; cared for employees by helping those in need and organizing employee activities
Customers	– Legal and high-quality products/ services – Stable relationship – Information transparency – Business ethics and integrity	– Group websites, brochures, annual reports and announcements – Email and customer service hotline – Regular meetings	– Established laboratory, strengthened quality management to ensure stable production and smooth transportation, and entered into long-term strategic cooperation agreements
Business partners	– Long-term partnership – Fair and open – Information resources sharing – Risk reduction – Business ethics and integrity	– Business meetings, supplier conferences, phone calls and interviews – On-site audit or checks	– Perform contracts according to agreements; enhance daily communication and establish cooperation with quality suppliers and contractors
Peers/Industry associations	– Experience sharing – Corporations – Fair competition	– Industry conferences and meetings – Company visits	– Stick to fair play; cooperate with peers to achieve win-win; share experiences and attend seminars of the industry so as to promote sustainable development of the industry
Finance Institutions	– Repayments on schedule – Business status – Operational risk – Business integrity	– Business conferences – Site visits	– Comply with regulatory requirements in a strict manner; disclose latest Company information in a timely and accurate manner according to rules and regulations
Public and communities	– Career opportunities – Community involvement – Environmental responsibilities – Social responsibilities	– Volunteering – Charity and social investment – Annual reports and announcements	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Through general communication with stakeholders, the Group understands the expectations and concerns from stakeholders. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impact.

The Group has adopted the principle of materiality in the ESG reporting by understanding the key ESG issues that are important to the business of the Group. All the key ESG issues and key performance indicators (KPIs) are reported in the Report according to recommendations of the ESG Reporting Guide (Appendix 27 of the Listing Rules) and the guidelines of Global Reporting Initiative ("GRI").

The Group has evaluated the materiality and importance in ESG aspects through the following steps:

Step 1: Identification – Industry Benchmarking

- Relevant ESG issues were identified based on feedback from investors, sustainability indices and the ESG reports of the Group's local and international industry peers.

- The materiality of each ESG issue was determined based on the frequency of its disclosure by selected peer companies.

Step 2: Prioritization – Stakeholder Engagement

- The Group engaged key stakeholders on ESG issues affecting the Group.

- Stakeholders were asked to rank each of the shortlisted ESG issues according to their view of its importance to the operation of the Group.

Step 3: Validation – Determining Material Issues

- The Group's management validated the range of ESG issues being reported to ensure the results of the materiality assessment were in line with and reflective of issues important to business development.

As a result of this process carried out in 2022, those important issues to the Group were discussed in this Report.

ESG GOVERNANCE

Board's oversight of ESG issues

Board's overall vision and strategy in managing ESG issues

The board of directors ("Board") has a primary role in overseeing the management of the Group's sustainability issues. During the reporting period, the Board and the ESG Working Group spent significant time in evaluating the impact of ESG-related risks on our operation and formulating relevant policy in dealing with the risks. The oversight of the Board aims to ensure the management to have all the right tools and resources to oversee the ESG issues in the context of strategy and from short-term to long-term value creation.

ESG Working Group

To demonstrate our commitment to transparency and accountability, our Group has established an ESG Working Group, which has clear terms of reference that set out the powers delegated to it by the Board. We highly value opinions of each stakeholder and treat them as the cornerstone for the development of the Group. During the reporting period, the ESG Working Group consisted of a non-Executive Director, three Independent Non-Executive Directors and project manager.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The ESG Working Group is primarily responsible for reviewing and supervising the ESG process, and risk management of the Group. Different ESG issues were reviewed by the Working Group at the meetings. During the reporting period, the ESG Working Group and the management reviewed the ESG governance and different ESG issues.

Board's ESG management approach and strategy for material ESG-related issues

In order to better understand the opinions and expectations of different stakeholders on our ESG issues, materiality assessment is conducted each year. We ensure various platforms and channels of communication are used to reach, listen and respond to our key stakeholders. Through general communication with stakeholders, the Group understands the expectations and concerns from stakeholders. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impact.

The Group has evaluated the materiality and importance in ESG aspects through the steps: (1) material ESG area identification by industry benchmarking; (2) key ESG area prioritization with stakeholder engagement; and (3) validation and determining material ESG issues based on results of communication among stakeholders and the management. Hence, this can enhance understanding of their degree in order to evaluate, prioritise and manage each significant ESG issue (including risks to our businesses), and can enable us to more comprehensively plan our sustainable development work in the future. Those important and material ESG areas identified during our material assessment were discussed in this Report.

Board review progress against ESG-related goals and targets

The progress of ESG target implementation and the ESG performance of the goals and targets should be closely reviewed from time to time. Rectification may be needed if the progress falls short of expectation. Effective communication about the goals and target process with key stakeholders is essential, as this enables them to be engaged in the implementation process, and to feel they are part of the change that the company aspires to achieve.

Setting strategic goals for the coming three to five years enables the company to develop a realistic roadmap and focus on results in achieving the visions.

Setting ESG targets requires the ESG Working Group to carefully examine the attainability of the targets which should be weighed against the company's ambitions and goals. The ESG Working Group will specify whether the ESG target is to be set on an absolute basis or intensity basis is essential for target setting. Setting ESG targets and goals in short-term, medium-term and long-term are discussed in sections A1 and A2 in this Report.

A. ENVIRONMENTAL ASPECTS

There has been a rising concern on environmental issues nowadays. The Group's commitment to environmental protection encompasses all our business activities, from minimising emissions to conserving energy and resources and much more. The Group's Environment and Wastes Policy demonstrates our determination in developing, implementing and constantly improving its procedures and processes to reduce the negative impact of the Company's operational activities on the environment.

A1: EMISSIONS

The Group has developed procedures to monitor the emission of air pollutants, wastes, wastewater and noise. We are strictly in compliance with relevant laws and regulations, which including Air Pollution Control Ordinance (Cap. 311) in HK and Environmental Protection Law in PRC. Emission control is essential to mitigate the impact to the environment and to protect the health of employees. Our air pollutants emission was mainly generated from the mobile source. During the reporting period, no concluded case regarding emissions brought against the Group or their employees was noted.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Air Pollutants Emission

Air pollutants emission control is vital to both environmental protection and health of employees. Emission from the Group's operation complies with the Emission Limits of Air Pollutants (DB44/27-2001) in the PRC. For example, exhaust gas treatment facilities require regular maintenance to secure that they meet the local emission standard. Containers for chemicals storage are sealed properly to prevent leakage. Air pollutants emission of the Group mainly came from vehicles. The decrease in air pollutants emission in 2022 was mainly due to the decrease in vehicle use for business travel, as well as the effective implementation of energy saving strategies during the year. Furthermore, the Group targets to reduce the emission of air pollutants by 10% by 2025.

The air pollutants emission during the reporting period is as follows:

Air Pollutants Emission	Unit	HK	PRC	2022 Total	2021 Total
Nitrogen oxides (NO_x)	kg	1.16	1.21	**2.37**	3.25
Sulfur dioxide (SO_2)	kg	0.04	0.61	**0.65**	1.56
Particulate matter (PM)	kg	0.09	0.43	**0.52**	1.01

Greenhouse Gas (GHG) Emission

Climate change is gradually concerned by the public as it does affect our daily life. GHG is considered as one of the major contributors to the climate change. The Group managed the carbon footprint by minimising the energy and water consumptions in its operation as these activities cause significant emission of GHG. The Group had adopted energy saving policy (as mentioned in the section Use of Resources) in order to reduce the carbon footprint. During the reporting period, our GHG emission scopes 1 and 2 mainly came from mobile combustion for vehicles and purchased electricity. The decrease in GHG emission in 2022 was mainly due to the decrease in vehicle use for business travel, as well as the effective implementation of energy saving strategies during the year. Furthermore, the Group targets to reduce the emission of GHG by 15% by 2025.

During the reporting period, the emission of greenhouse gas is as follows:

GHG Emission	Unit	HK	PRC	2022 Total	2021 Total
Scope 1[1]	tonnes of CO_2-e	6.49	17.88	**24.37**	48.16
Scope 2[2]	tonnes of CO_2-e	–	131.34	**131.34**	117.80
Total	tonnes of CO_2-e	6.49	149.22	**155.71**	165.96
GHG emission intensity	tonnes of CO_2-e/m^2	N/A[3]	0.22		HK: N/A[3] PRC: 0.30

1 Scope 1: Direct emissions from mobile sources by the group.
2 Scope 2: Indirect emissions from purchased electricity by the group.
3 The office area of Hong Kong was not available.

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Hazardous and Non-hazardous Wastes

Our source of non-hazardous waste is the general waste from daily office operation. The Group has outsourced the office cleaning work to an independent contractor for handling and collecting the non-hazardous waste and the waste volume record is not provided by the cleaning contractor. In order to better formulate measures to reduce the non-hazardous waste generation, the Group will coordinate with the cleaning contractor to collect the waste volume data in the coming year. In spite of this, the Group's Wastes Management Policy provides guideline on handling wastes. According to the characteristics of wastes, they are classified as general waste, industrial waste and hazardous waste. General waste and industrial waste are collected, stored, labelled and weighted before being delivered to qualified recycling companies. There were some measures implemented in the office to reduce the waste generated, for example, paper is printed on both sides to reduce paper waste. The Group introduces paperless solutions in the operation to reduce the paper usage. Recycling bins are placed in the office to recycle paper and other materials.

Generally, we have engaged qualified recycling companies to collect and handle the waste in accordance to the Prevention and Control of Environmental Pollution by Solid Wastes in the PRC and the Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong) in Hong Kong. The major source of our non-hazardous waste is paper waste.

Noise

Production plants in the PRC are required to comply with the regulation of Emission Standard for Industrial Enterprises Noise at Boundary (GB12348-2008). For premises that are equipped with generators and compressors, noise reduction devices are installed to reduce the noise generated from operation of machineries.

A2: USE OF RESOURCES

The resources consumed by the Group are mainly water, electricity, fuel, paper, etc. In order to save resources and mitigate the adverse effect on environment, the Group's Energy Resources Control Management Regulation is established to set out the framework and guideline for employees to implement resource-saving practices. Regular audits and review for resources usage allow us to identify any potential risks related to resource consumption.

Energy Consumption

The Group's energy consumption is considered as direct and indirect energy consumption. The direct energy consumption includes petrol use for vehicle and indirect energy consumption includes purchased electricity. Generally, trainings or activities are offered to employees to raise their awareness on energy saving. Energy efficiency is one of the key considerations for procurement department when purchasing machineries. The Group also establishes and implements policy of Office Environment Management Regulation to provide guidelines for employees to save energy in office. The key measures to reduce the energy consumption in office include:

- Lights and electronic appliances need to be turned off when employees leave office.

- The operation mode of air-conditioning system is adjusted according to the weather.

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Energy usage is recorded by responsible department and analysis is carried out to compare the usage with the same month of the previous year. If there was any substantial increase in the energy consumption, the Group will analyze the causes to rectify the problems promptly. During the reporting period, the decrease in energy consumption was due to the decrease in vehicle use for business travel, as well as the effective implementation of the energy saving strategies during the year. Furthermore, the Group targets to reduce the energy consumption by 15% by 2025.

During the reporting period, the energy consumption is as follows:

Energy Consumption	**Unit**	**HK**	**PRC**	**2022 Total**	**2021** Total
Purchased electricity	MWh	–	156.20	**156.20**	140.59
Petrol	MWh	21.32	72.86	**94.18**	194.27
Total	MWh	21.32	229.06	**250.38**	334.86
Energy consumption intensity	MWh/m^2	N/A[4]	0.34		HK: N/A[4] PRC: 0.60

Water Consumption

Water is another important resource. There was no separate record on water consumption in Hong Kong as the rents paid in Hong Kong during the reporting period included water charges. In light of the change of water consumption from private use to public use by the PRC office, it was not feasible to provide PRC water consumption data in 2022 as there was no sub-meter to record water usage. However, we still actively seek ways to reduce water consumption in Hong Kong and PRC office. We encourage our employees to save water usage by increasing their awareness through different channels. For example, employees are reminded to turn off the water taps after usage. The Group did not have any significant issues on sourcing water and complied with the law "Prevention and Control of Water Pollution" in PRC. The Group will strive to reduce the water consumption by 5% by 2025.

Wastewater

The Group always complies with the national regulation of Discharge Limits of Water Pollutants (DB44/26-2001) of the PRC on wastewater management. Wastewater is strictly forbidden to be mixed with rainwater. To reduce wastewater generation, the volume of wastewater production is one of our key concerns when designing new products and carrying out research on technology. All the chemical wastes are stored in specific location. It is not allowed to discharge wastewater into unauthorized locations, such as washroom and greenery area, etc.

A3: THE ENVIRONMENT AND NATURAL RESOURCES

The Group's Environmental Policy has outlined its environmental plan, which allows us to identify risks that are related to environment. By monitoring these risks, we can develop methods and emergency procedures if any adverse effect on environment is noticed. Moreover, the Group will continue to implement environment-friendly practices in the Group's operation in order to enhance environmental sustainability. The Group had insignificant impacts on the environment and natural resources, and the action taken to manage them are discussed in sections A1 and A2 in this Report.

4 The office area of Hong Kong was not available.

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A4. CLIMATE CHANGE

Governance

Our group addresses climate-related risks based on the nature of the risk to our operations. The physical impacts of climate change, including extreme weather events, or damage to facilities have immediate operational impacts and are treated as operational risks. Long-term challenges, such as emerging ESG issues and climate-related risks and opportunities, may be discussed by the Group's ESG Working Group.

Supported by our ESG Working Group, our Board oversees climate-related issues and risks regularly during board meetings and ensures that they are incorporated into our strategy.

To ensure our Board to keep up with the latest trend of climate-related issues, climate competence training will be provided to ensure it has the necessary expertise and skills to oversee the management of climate-related issues. Our Board also seeks professional advice from external experts when necessary to better support the decision-making process.

Our ESG Working Group provides effective governance for integrating and addressing ESG issues, including climate change, within our business. The ESG Working Group is responsible for approving operational emissions targets for the Group and commissioning an ESG benchmarking, as well as gap analysis exercise to identify gaps in both disclosure and policy relative to the best practice standards. Moreover, the ESG Working Group works closely with the Group's different operation departments, with an aim to develop consistent and enhanced approaches on addressing ESG risk issues and report to the management.

Strategy

Climate change risk forms part of our overall risk profile through its role in increasing the frequency and intensity of certain diseases, and the health and mortality impacts resulting from natural disasters. We assess the overall level of risk by taking into consideration a range of diverse risk factors across the many categories in our services range. This diversity of risk is combined with our business strategy and broad geographic footprint helps us mitigate risk and provide protection against the impacts of short-term climate change effects.

Our products and services continue to provide protection for people in our communities against weather and heat-related disease. Besides, we continue to explore opportunities to engage our business partners and encourage them to develop climate resilience and reduce their operational carbon footprint by taking into consideration of different climate-related scenarios, including a "2°C or lower scenario" through the following steps:

Step 1: Set Future Images Assuming Climate Change Effects

As climate change measures proceeds, there is a possibility that the industry will be exposed to substantial changes, such as stricter policies including the introduction of and increases in carbon pricing, as well as advances in technology and changes in customer awareness.

In light of these climate change effects, based on the International Energy Agency ("IEA") scenarios and others, we developed multiple future images as the external environment that will surround our Group. With regard to the IEA scenarios, we put focus on the 2°C scenario (2DS) and pictured future images in case where climate change measures do not progress and where such measures progress further "Beyond 2°C scenario".

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Step 2: Consider the Impacts

We considered the impacts on our Group for each of the future images developed in Step 1. We believe that in such a society, it will be possible to expand carbon dioxide reduction effects.

With regard to effects on raw material procurement and production, introduction of and increases in carbon pricing is anticipated in accordance with the global advance of climate change measures, leading to the possibility of higher raw material procurement and production costs.

On the other hand, in the case where climate change measures are not adequate throughout society, production interruptions and supply chain disruptions are likely to increase as a result of higher frequency and intensification of natural disasters such as flooding.

Step 3: Respond to the Strategies

Our Group will begin promoting the reduction of non-renewable energy in our daily operation. This strategy will allow for flexible and strategic responses to each demand for the regions where the emission factors of purchased electricity consumptions are high. By promoting real carbon emissions reductions throughout the world through comprehensive energy-saving policies and introduction of renewable energy, we are working to achieve zero carbon emission in our business.

We minimize carbon emissions through comprehensive energy-saving and introduction of renewable energy. With respect to renewable energy in particular, we have set a new target, achieve a reduction rate for purchased electricity in coming few years.

With regard to the ongoing confirmation of the suitability and progress of the Group's strategies, we believe that we will have opportunities for stable funding and sustainable increases in corporate value through appropriate information disclosure, dialogue with institutional investors and other stakeholders.

Risk Management

Our Group identifies the climate change related risks or to test the existing risk management strategies under climate change with the aid of risk assessment. Hence, the areas where new strategies are needed could be identified.

The risk assessment takes a standard risk-based approach using national data, local information and expert knowledge, which can identify how climate change may compound existing risks or create new ones. The risk assessment is conducted through the following steps:

Step 1: Establish the context

- Objective/goal
- Scale
- Time frame
- Climate change scenario for most climate variables and sea level

Step 2: Identify existing risk (past and current)

- Identify the record of occurrence of climatic hazard in the past in the area
- Risk management strategies in place to tackle future occurrence of the hazard

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Step 3: Identify future risk and opportunities

- Explore climate change projections for the selected time frame(s) and emission scenario(s)
- Identify potential hazards
- Investigate whether any existing risk from Step 2 may get worse under future projected changes
- Identify new risks that can emerge under future projected changes

Step 4: Analyse and evaluate risk

- Identify a set of decision areas or systems (i.e., geographical areas, business operation, assets, ecosystems, etc.) that has the potential to be at risk in future

As outlined within the Governance section above, the Group has robust risk management and business planning processes that are overseen by the board of directors in order to identify, assess and manage climate-related risks. The Group engages with government and other appropriate organizations in order to keep abreast of expected and potential regulatory and/or fiscal changes.

We continue to raise awareness of climate change in regard to monitoring of carbon and energy footprint in our daily operation. However, there remains gaps in understanding how such climate risks and opportunities may impact our operations, assets and profits. Our Group assesses how the business addresses climate change risks and opportunities and takes the initiative to monitor and reduce their environmental footprint.

Significant Climate-related Issues

During the reporting period, the significant climate-related physical risks and transition risks, which have impacted and/or may impact our Group's business and strategy in (i) operations, products and services, (ii) supply chain and value chain, (iii) adaptation and mitigation activities, (iv) investment in research and development, and (v) financial planning, as well as the steps taken to manage these risks, are as follows:

Climate-related risks description	Financial impact	Steps taken to manage the risks
Physical Risk		
Acute physical risks		
– Increased severity and frequency of extreme weather events such as cyclones and floods, strong wind. Hence, staff are easily injured. In addition, under the extreme weather events, the costs of transportation, communications and living increase, which may lead to financial loss.	– Operating cost increases – Capital cost increases due to the damage of facilities	– Planned to adopted scenario analysis to disclose an organization's planning under future scenarios, most notably one with in a "2°C scenario". – Established a natural disasters emergency plan.
– Increased likelihood and severity of wildfire, which may hinder the operations of company. Financial loss occurs due to the interruption of supply chain, logistics and transportation.		

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Climate-related risks description	Financial impact	Steps taken to manage the risks
Chronic physical risks		
– Prolonged hot weather may increase the energy consumption. – Climate change brings uncertainties to the environments of production and sales. Although direct losses will not be incurred by the company, this may still affect and limit the product sales and services significantly. – Prolonged climate change may detriment the human's health. Continuation of temperature rise can increase the fatality rates and incidence rates of some diseases, especially the one related to cardiac and respiratory system; the spread of some climate-sensitive diseases such as malaria and dengue fever may increase.	– Revenue reduces from decreased production capacity and the negative impacts of workforce.	– Planned improvements, retrofits, relocations, or other changes to facilities that may reduce their vulnerability to climate impacts and increase the climate resilience in long term. – Engagement with local or national governments and local stakeholders on local resilience.
Transitional Risk		
Policy risk		
– As a result of energy efficiency requirements, carbon-pricing mechanisms increase the price of fossil fuels which increase the operation cost. – Mandates on and regulation of existing products and services as of the tightened environmental and safety laws and standards of oil. We have to spend much compliance cost to update or maintain the equipment to fulfil the new regulations.	– Operating cost increases due to increased insurance premiums for the company. – Risk of trade increases.	– Planned to be involved in carbon trading and adoption of clean energy in the operations to reduce the carbon emissions. – Monitor the updates of the relevant climate-related environmental policies, to avoid the unnecessary increase in cost and expenditure due to the violation of the climate-related environmental policies.
Legal risk		
– Exposure to litigation. We have to adapt the tightened law and regulations issued by the government due to climate change, and they have the risk of litigation once they failed to obligate the new rules. – Enhanced emissions-reporting obligations. We may have to spend much time on fulfilling the report standards to comply the new obligations.	– Operating cost increases for high compliance costs and increased insurance premiums for the Group.	– Monitored the updates of environmental laws and regulations and implemented GHG emissions calculations in advance.

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Climate-related risks description	Financial impact	Steps taken to manage the risks
Technology risk		
– Developing the low carbon energy-saving products and energy saving technologies, the capital investment and R&D expense increase consequently. – More green building strategies with low-carbon, energy-saving technologies are adopted by industry peers. Lagging behind may weaken our competitive edges.	– Capital investment in technology development increases.	– Planned to invest in the innovations of energy saving products. – Examined the feasibility and benefits of applying the latest low-carbon and energy-saving technologies into our operation.
Market risk		
– More customers are considering climate-related risks and opportunities, which may lead to changes in customers' demand for products. – Uncertainty in market signals. "How environmentally friendly the product is" becomes one of the most crucial factors to affect the product selling price. – Increased cost of raw materials. More environmentally-friendly raw materials may be much expensive, which may increase the cost.	– Revenue decreases for the change in revenue mix and sources. – Operating cost increases as abrupt and unexpected shifts in energy costs. – Production cost increases due to changing input prices and output requirements.	– Tightened the control of the environmental hazardous materials in our products and studied the application of recycled materials.
Reputational risk		
– Unable to fulfil the expectations of the customers, damage the Group's reputation and image. – Stigmatization of our business sector, such as more stakeholder concern or negative stakeholder feedback on the product designed in a less environmentally-friendly way.	– Revenue decreases from decreased demand for goods and the decrease in production capacity. – Operating costs increases from negative impacts on workforce management and planning.	– Supported the green productions. – Fulfilled the social responsibility by organizing more activities or executing actions to demonstrate how we place importance on climate change.

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During the reporting period, the primary climate-related opportunities and the corresponding financial impacts were as follows:

Detailed description of climate-related opportunities	Financial Impact
Resource efficiency	
– Reduce more packaging material usage	– Operating cost reduces through efficiency gains and cost reductions
– Reduce water usage and consumption	
Energy source	
– Use of lower-emission fuel sources	– Operating cost reduces through use of lowest cost abatement
– Use of supportive policy incentives	– Returns on investment in low-emission technology increases
– Use of new technologies	
Products and services	
– Development of products which have consider climate change adaptation	– Research and development cost increases through new solutions to adaptations needs
– Ability to diversify business activities	
Markets	
– Access to new markets	– Revenue increases through access to new and emerging markets
Resilience	
– Participation in renewable energy programs and adoption of energy-efficiency measures	– Market valuation increases through resilience planning, such as infrastructure, land and buildings
– Resource substitution or diversification	– Reliability of supply chain and ability to operate under various condition increases
	– Revenue increases through new products and services related to ensuring resiliency

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Metrics and Targets

Our Group adopts the key metrics to assess and manage climate-related risks and opportunities. The energy consumption and greenhouse gas (GHG) emissions indicators are the key metrics used to assess and manage relevant climate-related risks where we consider such information is material and crucial for evaluating the impact of our operation on global climate change during the reporting period. Our Group regularly tracks our energy consumption and GHG emissions indicators to assess the effectiveness of emission reduction initiatives, as well as set targets to contribute our effort to have minimal impact on global warming.

The details of time frames over which the target applies and base year from which progress is measured are described in the section A1: "Emissions" and section A2: "Use of Resources" of this Report. Our Group adopts absolute target to manage climate-related risks, opportunities and performance.

B. SOCIAL ASPECTS

The Group prides themselves on a creative, dedicated and enthusiastic workforce that strives to achieve our common goal. By taking ownership of responsibilities, trusting and supporting each other, our employees are able to keep their promises and bring the Group's vision to life with a sense of pride in what they do and the Group's achievements. Our labour force is international and this diverse culture helps us to be a global company. Although such diversity does create some challenges, it provides unique opportunities as each culture brings a different way of thinking. For a disruptive technology company, this ensures that we are constantly testing our thinking from different angles.

B1. EMPLOYMENT

The Group expects that all employees and contractors treat one another with respect and dignity. In the Group's policy, it has covered issues relating to compensation and dismissal, recruitment and promotion, working hours, rest period, equal opportunity, diversity anti-discrimination and other benefits and welfare. The Group strictly abides by relevant laws and regulations, such as the Labour Law of the PRC, the Labour Contract Law of the PRC, the Employment Ordinance (Cap. 57), the Sex Discrimination Ordinance (Cap. 480), the Disability Discrimination Ordinance (Cap. 487) and the Employment Ordinance of Hong Kong (chapter 5 of the laws of Hong Kong). In 2022, the Group was not subject to any punishment by the government and was not involved in any lawsuit relating to employment.

Equal Opportunity

The Group specifically prohibits discrimination on the basis of age, colour, disability, ethnicity, marital or family status, national origin, race, religion, sex, sexual orientation, or any other characteristics protected by the law. These thoughts are extended to all employment decisions, including but not limited to recruiting, training, promotion, etc.

Harassment-Free Workplace

All employees are committed to maintaining a professional and harassment-free working environment – places where employees act with respect for one another and for those with whom we do business. Behaviors such as unwelcome conduct and sexual harassment are strictly prohibited.

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At the end of the reporting period, the employees of the Group mainly located in the PRC. Below is the employee breakdown by gender, age group, geographical region, employment category and employment mode.

Employee compositions	2022	2021
By gender		
• Male	**81%**	86%
• Female	**19%**	14%
By age group		
• Age 30 or below	**14%**	20%
• Age 31–40	**74%**	64%
• Age 41–50	**7%**	13%
• Age 51 or above	**5%**	3%
By geographical region		
• PRC	**100%**	100%
• Hong Kong	**–**	–
By employment category		
• Senior management	**2%**	2%
• Middle management	**14%**	10%
• General	**84%**	84%
• Contract/short term staff	**–**	4%
By employment type		
• Full-time	**100%**	100%
• Contract/short term	**–**	–

Our Group's employee annual turnover rate breakdown by gender, age group and geographical region during the reporting period is as follows:

Employee turnover rate	2022	2021
By gender		
• Male	**67%**	23%
• Female	**32%**	52%
By age group		
• Age 30 or below	**100%**	68%
• Age 31–40	**39%**	16%
• Age 41–50	**100%**	9%
• Age 51 or above	**40%**	–
By geographical region		
• PRC	**62%**	28%
• Hong Kong	**–**	–
Overall	**62%**	28%

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B2: HEALTH AND SAFETY

The Group is committed to providing a healthy and safe working environment and protecting employees from occupational hazards as stipulated in the Group's Code of Conduct and Safety Policy. We have a set of safety management system which outlines detailed guidelines in different circumstances. The Group is in strict compliance with related laws and regulations, such as Law of the PRC on the Prevention and Control of Occupational Diseases, Occupational Safety and Health Ordinance by the Labour Department in Hong Kong. The Group also seeks to exceed the minimum legal standards. It is our intent to avoid all injuries and to be recognised as an industry leader in safety. We support a "no blame" culture that encourages individuals to report failures in systems and to share these with the entire company in order to raise awareness and facilitate learning. Key occupation health and safety measures are adopted as follow:

1. Employees must receive safety training before performing duties.

2. Safety equipment is checked regularly to secure it is in good condition.

3. Personnel who uses organic solvent must follow the regulations adopted by the Group.

4. The Group provides health and occupational diseases checkup to our employees.

To further enhance the health of safety in workplace, the Group has commissioned a consultancy company to review its safety working procedures. During the reporting period, this can help the Group improve the safety standard. The Group is also concerned about both mental and physical well-being of employees. The Group's Workplace Stress and Fatigue Management Policy aims to provide a system for us to identify and manage any workplace stress and fatigue.

During the reporting period the Group was not subject to any punishment by the government and was not involved in any lawsuit related to health and safety.

During the reporting period, there was no work injury case (2021: nil, 2020: nil) and lost day due to work injury (2021: nil, 2020: nil) in our business operation. There was no work-related fatality case (2021: nil, 2020: nil) occurred in each of the past three years including the reporting period. Employees were given paid sick leave for their recovery. Overall, no employees had serious accident during the reporting period.

B3: DEVELOPMENT AND TRAINING

The Group provides diversified on-the-job trainings based on the needs of respective positions and talents and interests of employees. According to the Employee Training Policy, the Group provides both internal and external trainings for employees, including orientation training for new employees, specialised trainings for different departments, management trainings, etc. The trainings are particularly focused on safety trainings with the aim to improve the quality of employees' safety and to establish a corporate safety culture. With these trainings, the safety knowledge of the employees can be strengthened and the safety awareness can be enhanced. This can reduce the occurrence of work-related accidents. Moreover, the Group's Performance Management Policy and Guidelines is established to assess the performance of employees so as to identify and implement development programs for employees.

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During the reporting period, the percentage of employees received training by gender and employee category was as follows:

Percentage of employees received training	2022	2021
By gender		
• Male	**100%**	89%
• Female	**100%**	84%
By employee category		
• Senior management	**100%**	100%
• Middle management	**100%**	100%
• General	**100%**	95%
• Contract/short term	**–**	–
Overall	**100%**	88%

During the reporting period, the composition of employees received training by gender and employee category was as follows:

Composition of employees received training	2022	2021
By gender		
• Male	**84%**	84%
• Female	**16%**	16%
By employee category		
• Senior management	**3%**	2%
• Middle management	**13%**	11%
• General	**84%**	87%
• Contract/short term	**–**	–

Furthermore, the average training hours by gender and employee category during the reporting period was as follows:

Average training hours received per employee	2022	2021
By gender		
• Male	2.6	2.0
• Female	3.3	2.3
By employee category		
• Senior management	4.0	3.0
• Middle management	4.8	4.0
• General	2.4	1.9
Overall	2.7	2.0

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B4: LABOUR STANDARDS

Adhering to the Labour Law of the PRC and the Employment Ordinance (Cap. 57), the Group is committed to supporting the effective abolition of child labour and upholding the elimination of all forms of forced labour. As stipulated in our staff handbook, job applicants are required to present their identity documents during the recruitment process for age verification as prevention of engaging child labour. Besides, we respect the freedom of employees. All works should be voluntarily performed and must not involve forced labour. In the event that the Group discovers any incident of child or forced labour, the Group will respond immediately by ceasing the employment with the relevant person and take follow up actions to investigate the incidents. The Group also review its employment policy and practices from time to time to avoid child and forced labour.

During the reporting period, the Group was not aware of any non-compliance with the relevant laws and regulations related to recruitment of child labour or forced labour practices.

B5: SUPPLY CHAIN MANAGEMENT

A long-term cooperation between the Group and its suppliers is important to the operation of the business. The Group's Procurement Management Regulation provides guideline to manage the environmental and social risks of the supply chain. The choice of suppliers is based on the performance on different areas, including but not limited to compliance, environmental, health and safety management and quality management as stipulated in our internal Supplier Evaluation and Approval Standard. During the reporting period, all of our new suppliers are engaged pursuant to the Supplier Evaluation and Approval Standard. Continuous supplier assessments and on-site audits are carried out to evaluate the performance of our existing suppliers. We always seek opportunities to improve the product quality by conducting conference meetings to discuss product improvement and environmental sustainability improvement. The Group has ISO-9001 quality management system which demonstrates our commitment to quality and our capability to satisfy customer's requirements.

The geographical distribution of our major suppliers is as follows:

Geographical region	Number of suppliers	
	2022	**2021**
PRC	**84**	100
Hong Kong	**–**	–
Total	**84**	100

B6: PRODUCT RESPONSIBILITY

The Group is a world leader in future technology, as well as the owner of the relevant core intellectual properties. The Group has a world-class research and development team that integrates various advanced technologies in electronic information, mathematics and statistics, and other disciplines and has 828 patent applications. Product responsibility is a key consideration across all aspects of the development of the Group's products including design, manufacturing, training and operations. The Group complies with laws and regulations related to health and safety, advertising, labelling and privacy matters relating to products and services provided in the regions where it operates, for instance, Product Quality Law of the PRC and Trademark Law of the PRC. In 2022, the Group was not subject to any punishment by the government and was not involved in any lawsuit relating to product responsibility.

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Safety and Quality Management

Safety is a vital aspect of any products, especially for aircrafts, that have been deeply implanted in the operation of the Group. To ensure the safety and quality of our products, the Group has established a comprehensive quality management system to monitor the entire production process. Incoming Quality Control is implemented to evaluate the quality of material from suppliers. The standard procedures for packaging, transportation and storage of products are stipulated in the internal regulations. Finished products are inspected to identify any defects. If non-conforming product is noticed, it will be decided whether to rework, accept or be considered as scrap.

Complaint Handling

Once a compliant is received by telephone, email or letter, it must be reported to the management. Investigation is carried out to identify the reason of the compliant. Responsible department is required to formulate long term strategy and the result will be reviewed by quality assurance department. During the reporting period, no material products and service-related complaints were received, and no products sold or shipped were subjected to recalls for safety and health reasons.

Intellectual Property Protection

Protection of intellectual property has been taken very seriously by the Group. Significant technology and intellectual property developed through research and development of the Group have been protected under registered patents. The Group's policy of Intellectual Property Management System describes clearly the practices on protection of intellectual property rights. Every employee is required to sign an agreement, which states clearly the ownership of the intellectual property. Before disclosure of patent application is made, every employee has the responsibility to keep all related information in secret.

Customer Data Protection and Privacy

Data is our valuable asset. The Group is committed to complying with data protection principles and the requirements of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong). The Group has developed a policy of Information Management System to provide guidance to staff on control and usage of company data and to restrict access or use where necessary to protect the interests of the Group. Data is classified into different levels according to the confidentiality as public, internal, and restricted/confidential.

B7: ANTI-CORRUPTION

The Group maintains a high standard of business integrity throughout its operations and tolerates no corruption or bribery or money laundering in any form according to the Group's Code of Conduct. The Group strictly complies with relevant laws and regulations relating to anti-corruption, bribery, extortion, fraudulent behaviour and money-laundering, including but not limited to the Criminal Law of the PRC, the Prevention of Bribery Ordinance of (Chapter 201 of the Laws of Hong Kong).

The Group is committed to adhering to the highest ethical standards. All employees are distributed with a code of conduct that they are required to adhere. Such code explicitly prohibits employees from soliciting, accepting or offering bribes or any form of advantage. The Code of Conduct also outlines the Group's expectations on staff with regard to conflicts of interest.

To minimise the possibility of corruption, the Group's Gift Policy defines the meaning of gift and clarifies the rules in relation to giving and receiving gifts. The Group's Whistle Blower Policy encourages Board members, staff and others to report suspected or actual occurrences of illegal, unethical or inappropriate events (behaviors or practices) without retribution. Employees should report to the management at once when any suspected violations of the code of conduct and anti-fraud policy including conflicts of interest, deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, asset misappropriation, false representation, concealment of materials facts and collusion, fighting or gambling whilst on duty, serious negligence of duties, money laundering, etc. are found. This aims to minimize damage to the Group's reputation. In cases of suspected corruption or other forms of criminality, once prima facie evidence has been established, cases will be reported to Hong Kong Independent Commission Against Corruption or other appropriate regulatory authorities.

During the reporting period, the Group was not subject to any punishment by the government and was not involved in any lawsuit related bribery, extortion, fraud and money laundering.

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The Group provides training sessions of anti-corruption to the directors and staff. During the Year, the number of employees received anti-corruption training and the training hours by employee category are as follows:

Anti-corruption training	2022	2021
Number of employees received training		
– Board of directors	**5**	5
– Senior management	**2**	2
– Middle management	**8**	8
– General staff	**46**	47
Total employees	**61**	62
Number of training hours		
– Board of directors	**10**	10
– Senior management	**4**	4
– Middle management	**16**	16
– General staff	**74**	74
Total training hours	**104**	104

B8: COMMUNITY INVESTMENT

The Group has established a Community Involvement Policy to promote community involvement and social contribution. It provides an opportunity for employees to volunteer and serve the community. The Group has contributed in different areas so as to build a better society.

Community Involvement

As a global high-tech innovation company, the Group endeavours to support technical innovation and learning and hosts students and enthusiasts at its facilities and offers talks and demonstrations. Moreover, the Group held an open day in May 2018 for sharing our professional knowledge with public citizen. In addition, many of our employees spend time to give talks to universities, schools and clubs to encourage education and interest in science, technology and engineering.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING INDEX

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KPI A1.3	Total hazardous waste produced and, where appropriate, intensity	No concluded cases regarding hazardous waste were noted during the reporting period	–
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KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	No product regarding safety and health reasons was recalled.	–
KPI B6.2	Number of products and service related complaints received and how they are dealt with	"Complaint Handling"	27
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B7: Anti-corruption			
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KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the case	No concluded legal case regarding corrupt practices was noted.	–
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	"Anti-corruption"	27
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ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ASSUMPTIONS AND REFERENCES

Assumptions of calculating KPIs

1. We have assumed that the accuracy of information provided to us by the Group and relied to a considerable extent on such information in arriving at our result of calculation and consumption data is adjusted so as to be consistent with the reporting period of the report.
2. For calculation of SO_2 emission from vehicles in the PRC, the sulfur content of petrol is assumed to be 50ppm based on 《道路機動車大氣污染物排放清單編制技術指南》.
3. For calculation of air pollution from mobile source based on kilometres travelled by vehicles in the PRC, we assume that the vehicles are under the following conditions: running at average speed of 30 km/hour, 50% relative humidity, temperature of 15 Degree Celsius, the sulfur content of petrol is 50ppm and loading percentage is 50%.
4. According to Appendix 2: Reporting Guidance on Environmental KPIs issued by HKEX, as non-hazardous weight data is not available from the Group, the weight data is estimated by the Group using other available information. We have assumed that the estimated data is not materially different from the actual one.

Key references of calculating KPIs

1. Appendix 27 to the rules governing the Listing Rules – "Environmental, Social and Governance Reporting Guide"
2. 《道路機動車大氣污染物排放清單編制技術指南(試行)》，中華人民共和國環境保護部
3. 《車用汽油》國家標準，國家能源局
4. 《溫室氣體核算體系能源消耗引起的溫室氣體排放計算工具指南(2.1版)》，世界資源研究所
5. 《綜合能耗計算通則》(GB/T 2589-2008)，國家標準化委員會

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Liu Ruopeng ("Dr. Liu"), aged 39, is currently the chairman and executive Director of the Company and also the chairman of Nomination Committee of the Company. Dr. Liu joined the Company in August 2014. Dr. Liu has been the president of Kuang Chi Institute of Advanced Technology, a private not-for-profit research organisation which focuses on science research since 2010. Dr. Liu has been the director of the State Key Laboratory of Metamaterial Electromagnetic Modulation Technology since 2012, and vice chairman of the National Technical Committee of Standardization for Electromagnetic Metamaterial Technology and Products since 2013. Dr. Liu is executive vice chairman of the Youth Committee of the All-China Federation of Returned Overseas Chinese, deputy of the National People's Congress, vice chairman of Shenzhen Federation of Industry and Commerce, a commissioner for recommending young talents to Shenzhen, a member of the Standing Committee of Shenzhen Youth Federation, a member of the Shenzhen-Hong Kong Youth Consulting Committee for Authority. Dr. Liu obtained a collective award of "Guangdong Youth May 4th Medal" in 2011. Dr. Liu was awarded "China Youth May 4th Medal", the top honour for young Chinese people, in 2014.

Dr. Liu obtained a master's degree and a doctorate degree from Duke University, the United States in 2009 and a bachelor's degree from Zhejiang University, China in 2006. Dr. Liu has been a chairman of Kuang-Chi Technologies Co., Ltd., a company listed on the Shenzhen Stock Exchange (security code: 002625.SZ) since 25 April 2017. Dr. Liu has extensive experience in research and development of advanced technologies and business network in relation to metamaterial, near space and other innovative technology industries. Dr. Liu has made outstanding contributions to business management, the system innovation of new-type research institutions and the construction of the Global Community of Innovation.

As of 31 December 2022, Dr. Liu was interested in certain Shares. Please refer to the section headed "Directors' and Chief Executives' Interests in Shares" in this report for further details.

Dr. Luan Lin ("Dr. Luan"), aged 43, is currently the executive Director of the Company. Dr. Luan was a chief executive officer and a chief technology officer of the Company from May 2016 to December 2022. Dr. Luan joined the Company in August 2014. Dr. Luan has been the vice president of Kuang-Chi Institute of Advanced Technology since 2010. Dr. Luan obtained a collective award of "Guangdong Youth May 4th Medal" in 2011.

Dr. Luan obtained a doctorate degree from Duke University, the United States in 2010 and a master's degree from Peking University, China in 2004. Dr. Luan was a non-executive director of Martin Aircraft Company Limited ("MACL") from February 2015 to June 2020, which removed from the official list of Australian Securities Exchange with effect from 4 June 2018. Afterward, MACL had arranged to transition its shares to the USX (a New Zealand unlisted share trading platform) with effect from 7 June 2018. Dr. Luan has been appointed as the chief executive officer of Kuang-Chi Technologies Co., Ltd. (the shares were listed in Shenzhen Stock Exchange Limited, the stock code: 002625.SZ) since December 2022. Dr. Luan has extensive experience in research and development of advanced technologies and business network in relation to electronic information, near space and other innovative technology industries. Dr. Luan has extensive experience in business management and team management.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Zhang Yangyang ("Dr. Zhang") aged 43, is currently the executive Director of the Company and also a member of Remuneration Committee of the Company. Dr. Zhang joined the Company in August 2014. Dr. Zhang has been the executive vice president of Kuang-Chi Institute of Advanced Technology since 2010. Dr. Zhang has been vice president of Shenzhen Young Science and Technology Talents Association since 2012. Dr. Zhang obtained a collective award of "Guangdong Youth May 4th Medal" in 2011. Dr. Zhang has been the director of Kuang-Chi Technologies Co., Ltd. (the shares were listed in Shenzhen Stock Exchange Limited, the stock code: 002625.SZ) since April 2017.

Dr. Zhang obtained a doctorate degree from the University of Oxford, the United Kingdom in 2008, and a master's degree and a bachelor's degree from the Northeastern University, China in 2004 and 2002 respectively. Dr. Zhang has extensive experience in research and development of advanced technologies and business network in relation to metamaterial, near space and other innovative technology industries. Dr. Zhang has extensive experience in business management and team management.

Dr. Ji Chunlin ("Dr. Ji"), aged 42, is currently the executive Director of the Company, the vice president and Chief Technology Officer of Kuang-Chi Institute of Advanced Technology. Dr. Ji joined the Company in February 2020. He was elected as a senior engineer of engineering technology in Shenzhen in 2019. He also serves as the deputy director of the State Key Laboratory of Metamaterial Electromagnetic Modulation Technology, a member of the Academic Committee and the National Standardization Committee on Electromagnetic Metamaterial Technology and Products, a fellow of the first batch of experts of Shenzhen Standard Experts Depository, and a member of the 100 Experts Committee of Artificial Intelligence and Big Data in China. He is the executive director of the computing and statistics branch of the Statistical Research Institute of China and the 10th Council of the National Statistical Society of China; the director of Shenzhen Key Laboratory of Information Science and Modeling Technology; and the director of Shenzhen Engineering Laboratory of New Materials and Computer Auxiliary Design, etc.

Dr. Ji received a doctoral degree in statistics from Duke University in the USA in 2009, and subsequently served as a postdoctoral fellow in the Statistics Department of Harvard University in 2010 and engaged in academical research. Dr. Ji has been acting as the non-independent director of Kuang-Chi Technologies Co., Ltd. (a company whose shares are listed in Shenzhen Stock Exchange, stock code: 002625.SZ) since July 2020. Dr. Ji has extensive research and development experiences in applied and fundamental research and technological product innovation of statistics, metamaterials, data science and machine learning.

NON-EXECUTIVE DIRECTOR

Mr. Li Chiu Ho ("Mr. Li"), aged 33, joined the Company in March 2020 and is currently the non-executive Director of the Company. Mr. Li has been appointed as the Chief Financial Officer of China Carbon Neutral Development Group Limited 中國碳中和發展集團有限公司 (HK stock code: 1372) with effect from June 2022. He graduated from the Chinese University of Hong Kong with a bachelor degree of Business Administration in Professional Accountancy. Mr. Li is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Li has over 10 years of experience in audit, finance and accounting fields in Hong Kong. He previously worked in PricewaterhouseCoopers as manager. During 2017 to 2018, he acted as the financial controller of the Company and was responsible for financial management and reporting of the Company. During 2019 to 2022, he was the Managing Director of First Move Consulting Limited (先發顧問有限公司), which provides various financial and consultancy services.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTOR

Dr. Wong Kai Kit ("Dr. Wong"), aged 49, is currently an independent non-executive Director of the Company and also the chairman of Remuneration Committee and a member of Audit Committee and Nomination Committee of the Company. Dr. Wong joined the Company in August 2014. Dr. Wong was appointed a professor at the Department of Electronic and Electrical Engineering, University College London, United Kingdom in October 2015. Dr. Wong had other teaching and research roles in universities and education institutes in Hong Kong, the United States of America and the United Kingdom. Dr. Wong is an academician of The Institution of Engineering and Technology Inc. ("IET") and a fellow of The Institute of Electrical and Electronics Engineers Inc.. Dr. Wong obtained a doctorate degree, a master's degree and a bachelor's degree from the Hong Kong University of Science and Technology in 2001, 1998 and 1996 respectively.

Mr. Choi Wing Koon ("Mr. Choi"), aged 46, is currently an independent non-executive Director and chairman of Audit Committee of the Company. He holds a bachelor's degree in Business Administration (Accounting) awarded by the Hong Kong University of Science and Technology in 1999. Mr. Choi joined the Company in October 2019. He also obtained a master's degree in Business Administration awarded by the University of Hong Kong in 2014. Mr. Choi is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He has over 15 years of experience in accounting and the company secretarial field. Mr. Choi is currently the financial controller and company secretary of Huanxi Media Group Limited (stock code:1003), the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is currently an independent non-executive Director of Universe Entertainment and Culture Group Company Limited (stock code: 1046), the shares of which are listed on the Main Board of the Stock Exchange.

Dr. Deng Ke ("Dr. Deng"), aged 40, is currently an independent non-executive Director of the Company and also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Dr. Deng joined the Company in July 2020. He graduated from Peking University in the PRC majoring in Applied Mathematics in 2003. He then studied Statistics in Peking University and obtained a doctoral degree in 2008. Dr. Deng had been principally engaged in scientific research work in the field of Statistics in Harvard University in the U.S. from 2008 to 2013. Later, he returned to the PRC and devoted himself to the scientific research work in the field of Statistics in Tsinghua University in the PRC and is currently the executive director and an associate professor (employed on a long-term contract) of the Center for Statistical Science of Tsinghua University, and also the director of the Statistical Consulting Unit (統計諮詢中心). During his service in Tsinghua University, Dr. Deng took the lead in various projects of different aspects, including risk analysis of global epidemic, risk assessment on food safety and medical big data analysis, etc. Dr. Deng is committed to nurturing students and dedicated to the academic and research contributions in Statistics.

SENIOR MANAGEMENT

Dr. Liu Weiwen ("Dr. Liu W"), aged 35, has been appointed as the chief executive officer of the Company on 5 December 2022. D. Liu W joined the Group in 2015 and served at management positions, including a Director of Operation Management Department of Shenzhen Kuang Chi Space Technology Limited*(深圳光啟空間技術有限公司)("KuangChi Space"), an indirect wholly owned subsidiary of the Company from January 2020 to November 2022, and a Project Management Senior Manager of Project Management Department of KuangChi Space from August 2015 to December 2019. Dr. Liu W obtained a doctorate degree of Materials Science and Engineering from University of Delaware, the United States in 2013 and a bachelor's degree of Materials Science and Engineering from University of Science and Technology of China in 2007. Dr. Liu W has experience in research and development of materials science and engineering, project management, corporate reform, financial management and capital operations.

As of 31 December 2022, Dr. Liu W was interested in certain Shares. Please refer to the section headed "Directors' and Chief Executives' Interests in Shares" in this report for further details.

DIRECTORS' REPORT

The Directors are pleased to present their report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are 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"). Details of the principal activities of the principal subsidiaries of the Company are set out in note 39 to the consolidated financial statements of this annual report. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2022.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

During the Year, the Group's five largest suppliers and the largest supplier accounted for approximately 92.0% and 41.8% respectively of the Group's total purchases.

During the Year, the Group's five largest customers accounted for approximately 90.0% of the Group's total sales. The largest customer accounted for approximately 38.9% of the Group's total sales.

Save as disclosed in the section headed "Continuing connected transactions" below, one of the five largest suppliers is KCT Group, none of the Directors, their close associates or any shareholders of the Company, which to the knowledge of the Directors, owned more than 5% of the Company's issued share capital has a beneficial interest in any of the Group's five largest suppliers and customers during the Year.

RESULTS AND APPROPRIATIONS AND FINAL DIVIDENDS

The results of the Group for the year ended 31 December 2022 are set out in the consolidated financial statements on pages 70 to 143.

No dividend was paid or proposed during the year ended 31 December 2022, nor has any dividend been proposed since the end of the Year (2021: Nil).

BUSINESS REVIEW

Overview

A business review, particulars of important events that have occurred since the end of the Year and future development of the Group are set out in the section headed "Management Discussion and Analysis" on pages 3 to 7 of this annual report, which forms part of this directors' report.

Key financial and business performance indicators

The key financial and business performance indicators comprise gross profit margin; EBITDA, share based payment and impairment loss recognised in respect of goodwill; and debt to equity ratio. Details of key performance indicators are discussed below.

The Group's gross profit margin, based on gross profit for the year to revenue, was 20.6% (2021: 36.6%) for the year ended 31 December 2022. The gross profit margin for the year ended 31 December 2022 decreased mainly due to the Group has further optimised its internal operations.

DIRECTORS' REPORT

EBITDA and share based payment represented earnings from continuing operations before interest, taxes, depreciation and amortisation and share-based payment expenses. The Group's EBITDA and share based payment remains stable (2021: remains stable) for the years ended 31 December 2022 and 2021.

The level of debt (including lease liabilities and bank borrowings) to equity of the Group was at a healthy level of 0.09 times as at 31 December 2022 (2021: 0.08). The Group will continue to safeguard its capital adequacy position, manage key risks cautiously and set prudent yet flexible business development strategies to strike a balance between business growth and prudent risk management.

Environmental policies

The Group is committed to the long-term sustainability of the environment and communities in which we operate and are committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials. For details, please refer to the section headed "Environmental, Social and Governance Report".

Health and safety

The Group provides health and safety information to raise employees' awareness of occupational health and safety issues. Risk assessments of workstations are performed regularly. Improvement and maintenance of tools, office equipment are performed to cope with the needs and demands of employees. Cleaning of workstations and office equipment are carried out at regular intervals in order to provide a safe, hygienic and healthy working environment to all staff.

Employees are also expected to take all practical measures to ensure a safe and healthy working environment, in complying with their defined responsibilities and applicable laws. For details, please refer to the section headed "Environmental, Social and Governance Report".

Environment protection

Conservation of the environment remains a key focus for the Group, the conscious minimising in consumption of resources and adoption of environmental best practices across the Group's businesses underlie our commitment to conserving and improving the environment. The Group complies with environmental legislation, encourage environmental protection and promote our awareness to all employees of the organization.

The Group commits to the principle and practice of recycling and reducing. To help conserve the environment, we implement green office practices such as re-deployment of office furniture as far as possible, encourage use of recycled paper for printing and copying, double-sided printing and copying, reduce energy consumption by switching off idle lightings, air conditioning and electrical appliances.

The Group will review its environmental practices from time to time and consider implementing further eco-friendly measures, sustainability targets and practices in the operation of the Group's businesses to embrace the principles of reduce, recycle and reuse, and further minimise our already low impact on the natural environment. For details, please refer to the section headed "Environmental, Social and Governance Report".

Community involvement

The Group supports and encourages staff to actively participate in a wide range of charitable events outside working hours, to raise awareness and concern for the community, and to inspire more people to take part in serving the community. For details, please refer to the section headed "Environmental, Social and Governance Report".

DIRECTORS' REPORT

Compliance with laws and regulations

The Group continues to update its compliance and risk management policies and procedures, and the senior management are delegated with the continuing responsibility to monitor compliance with all significant legal and regulatory requirements. These policies and procedures are reviewed regularly. For the year ended 31 December 2022 and up to the date of this report, as far as the Board of Directors and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. For the year ended 31 December 2022, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

Principal risks and uncertainties

A number of factors may affect the results and business operations of the Group, some of which are inherent risks and some are from external sources. Major risks are summarized below.

(1) ***Industry risk***

Our business operates in an industry that is subject to changes in market conditions, technological advancements, developing industry standards and changing customers' needs and preferences for our new products and/or services. If we are unable to respond to these changes promptly or unable to continually enhance our existing products and market new products in a timely manner, our performance may be adversely affected. We continued to invest significant resources in research and development of the future technology business to ensure we retain the leadership in the business.

(2) ***Macroeconomic environment***

The business environment in near future is challenging due to a number of factors such as uncertainty over the global economy, the PRC economy entering a "new normal". Slower consumer spending may result in reduced demand for our products, reduced sales price, order cancellations, lower revenue and margins. It is therefore important that the Group is aware of any such changes of economic environment and adjust our business plan under different market conditions.

(3) ***Foreign Exchange Rate Risk***

The majority of the Group's assets and sales business are located in the PRC. Most of our sales transactions are denominated in Renminbi while our financial statements are presented in Hong Kong Dollar. The depreciation of Renminbi will result in lower sales and asset value of the Group. The Group currently has minimal exposure to foreign currency risk, but continue to monitor the relative foreign exchange positions of the mix of its assets and liabilities. When appropriate, hedging instruments including forward contracts, swaps and currency loans would be used to manage the foreign exchange exposure. The foreign currency risk is managed and monitored on an on-going basis by senior management of the Group.

During the Year, the Group has not used any financial instrument for hedging purposes.

Relationships with key stakeholders

The Group's success also depends on the support from key stakeholders which comprise employees, customers and suppliers.

Employees

Employees are regarded as the most important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and advancement through appropriate training and opportunities provided within the Group.

DIRECTORS' REPORT

Customers

The Group maintains a good relationship with the customers. It is the Group's mission to provide excellent customer service in future technology business and other businesses whilst maintaining long term profitability, business and asset growth. Various means have been established to strengthen the communications between the customers and the Group in the provision of excellent customer service. A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality.

Suppliers

Sound relationships with key suppliers of the Group is important in supply chain, meeting business challenges and regulatory requirements, which can derive cost effectiveness and foster long term business benefits. We have developed long-standing relationships with a number of our suppliers and take great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 74 and note 33, and other details of the reserves of the Company are set out in note 38 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2022, the Company had no reserves available for distribution. However, the Company's share premium account, in the amount of approximately HK$2,339,550,000 may be distributed in the form of fully paid bonus shares.

FIXED ASSETS

Details of movements in the Group's property, plant and equipment, investment properties and right-of-use assets during the Year are set out in notes 16, 17 and 18 to the consolidated financial statements respectively.

SHARE CAPITAL

Details of movements in the Company's share capital during the Year are set out in note 32 to the consolidated financial statements and "Capital Structure" in the section headed "Management Discussion and Analysis" on page 5 of this annual report.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 144.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders, although there are no restrictions against such rights under the laws in Bermuda.

DIRECTORS' REPORT

EQUITY-LINKED AGREEMENT

Other than the Share Option Scheme (as defined below) disclosed below, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Year or subsisted at the end of the Year.

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.

SHARES ISSUED

The Company did not issue any shares during the year ended 31 December 2022.

DIRECTORS AND SERVICE CONTRACTS

The Directors during the Year and up to the date of this report were:

Board of Directors
Executive Directors
Dr. Liu Ruopeng *(Chairman)*
Dr. Luan Lin
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

In accordance with Bye-laws 87(1) of the Company, Dr. Luan Lin, Mr. Li Chiu Ho and Dr. Wong Kai Kit will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' REPORT

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 33 to 35.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule") and as at the date of this report still considers that all of the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the retiring Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS, TRANSACTIONS AND ARRANGEMENTS OF SIGNIFICANCE

Other than as disclosed under the section of "Continuing Connected Transactions, Connected Transactions and Other Related Party Transactions", no contracts, transactions and arrangements of significance in relation to the Group's business to which the Company, its holding company, or any of its subsidiaries was a party and in which Director had a material interest, either directly or indirectly, subsisted at any time during or at the end of the Year.

No contracts of significance were entered into between the Company or any of its subsidiaries and any controlling shareholder or any of its subsidiaries during the Year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, every Director, other officer and auditor shall be entitled to be indemnified out of assets and profits of the Company against all losses or liabilities incurred or sustained by him/her as a Director, auditor or other officer of the Company about the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by Remuneration Committee on the basis of their merit, qualifications and competence.

The emolument of the Directors is decided by Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of which are set out in note 34 to the consolidated financial statements and the section headed "Share Option Scheme" below.

DIRECTORS' REPORT

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the five highest paid individuals and the Directors of the Group during the year ended 31 December 2022 are set out in notes 11 and 12 to the consolidated financial statements respectively. The remunerations of the Directors are determined based on the market price and contribution made by such Directors to the Company. Dr. Liu Ruopeng, Dr. Zhang Yangyang and Dr. Luan Lin agreed to waive the emoluments payable to them for the year ended 31 December 2022 amounting to approximately HK$928,000, HK$871,000 and HK$812,000, respectively. Other than Dr. Liu Ruopeng, Dr. Zhang Yangyang and Dr. Luan Lin neither the chief executive nor any of the other directors waived or agreed to waive any emoluments during the year ended 31 December 2022.

CONTINUING CONNECTED TRANSACTIONS, CONNECTED TRANSACTIONS AND OTHER RELATED PARTY TRANSACTIONS

Save as disclosed below, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this annual report in compliance with the requirements of Chapter 14A of the Listing Rules during the year ended 31 December 2022. The Directors confirm that they have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Continuing connected transactions

Wearable Smart Helmets

On 30 March 2020, the Company (as purchaser) and Kuang-Chi Technologies Co., Ltd. 光啟技術股份有限公司 ("Kuang-Chi Technologies") (as vendor) entered into the Master Procurement Agreement in respect of the procurement of the wearable smart helmets by the Group. Pursuant to the Master Procurement Agreement, Kuang-Chi Technologies and its subsidiaries ("KCT Group") shall sell the wearable smart helmets upon request by the Group, on terms and conditions (including the selling price of the wearable smart helmets) to be agreed by the Group and KCT Group on arm's length basis and normal commercial terms. Further details were disclosed in the announcement of the Company dated 7 May 2020.

With reference to the announcement dated 13 July 2020, the Board expected that the unexpected increase in demand for the empowered helmets after the Existing Annual Caps were approved by the independent shareholders on 22 May 2020, there would not be sufficient annual caps for the Group's new projected procurement volume of the wearable smart helmets for three years 2020, 2021 and 2022. The Board therefore proposes to revise the Existing Annual Caps to the Revised Annual Caps in respect of the transactions contemplated under the Master Procurement Agreement. On 9 September 2020, a special general meeting was held to approve the Revised Annual Caps for the three years 2020, 2021 and 2022, and the resolution was duly passed.

The continuing connected transaction of the Company is included in the disclosure of related party transactions in note 35 to the consolidated financial statements.

The independent non-executive Directors had reviewed the above continuing connected transaction pursuant to Rule 14A.55 of the Listing Rules, and had confirmed that the continuing connected transaction had been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) according to the terms of the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS' REPORT

The transaction has been approved by the board of directors of the Company, was in accordance with the pricing policies of the Company in all material respects, was entered into in accordance with the relevant agreement governing the transaction in all material respects. The total amounts of the wearable smart helmets disclosed above procured during the year under review have not exceeded the Revised Annual Caps of RMB121.1 million (equivalent to approximately HK$132.3 million) (including VAT).

RSM Hong Kong, the Company's external auditors, were engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. RSM Hong Kong have issued their unqualified letter containing the findings and conclusions in respect of the non-exempt continuing connected transaction disclosed above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Connected transactions

Procurement Agreement

On 30 November 2022, 深圳光啟空間技術有限公司 (Shenzhen Kuang Chi Space Technology Limited*) ("Kuang-Chi Space"), an indirect wholly-owned subsidiary of the Company, as vendor, entered into the Procurement Agreement with 佛山順德光啟尖端裝備有限公司 (Foshan Shunde Guangqi Cutting Edge Equipment Co., Ltd.*) ("Foshan Shunde Guangqi"), an indirect wholly-owned subsidiary of Kuang-Chi Technologies, as purchaser, in respect of the procurement of Intelligent Tracking System For Factory for approximately RMB6.4 million, (including VAT). Pursuant to the Procurement Agreement, Kuang-Chi Space shall procure a set of Intelligent Tracking System For Factory which comprises of hardware and software products for Foshan Shunde Guangqi and provide related deployed services. The scope of the Procurement Agreement shall cover: (i) procurement of hardware products; (ii) procurement and installation of software products; and (iii) system integration. The Intelligent Tracking System For Factory assists the factory to optimize the production management through multi-dimensional detections, such as the production procedures, with an aim to achieve (i) improvement in manufacturing execution; (ii) optimal production management efficiency and (iii) lower overall costs. The terms and conditions (including the payment) were agreed by the Group and Foshan Shunde Guangqi on arm's length basis and normal commercial terms. As at the date of the Procurement Agreement, (i) Kuang-Chi Space is an indirect wholly-owned subsidiary of the Company and Foshan Shunde Guangqi is an indirect wholly-owned subsidiary of Kuang-Chi Technologies Co., Ltd. (光啟技術股份有限公司); (ii) Dr. Liu is an executive Director and controlling shareholder of the Company and Dr. Zhang, Dr. Luan and Dr. Ji are executive Directors of the Company, therefore, Dr. Liu, Dr. Zhang, Dr. Luan and Dr. Ji are connected persons of the Company pursuant to Rule 14A.07 of the Listing Rules; and (iii) Dr. Liu, Dr. Zhang, Dr. Luan and Dr. Ji collectively control the exercise of more than 30% of the voting power of the general meetings of Kuang-Chi Technologies and thus Kuang-Chi Technologies is an associate of Dr. Liu, Dr. Zhang, Dr. Luan and Dr. Ji, and therefore a connected person of the Company. Further details were disclosed in the announcement of the Company dated 30 November 2022.

Save as disclosed above, during the Year, the Group did not have any other connected transactions which are required to be disclosed in this annual report.

Other related party transactions

The Group entered into certain transactions with parties regarded as "related parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis.

* *For identification purpose only*

DIRECTORS' REPORT

Further details are set out in note 35 to the consolidated financial statements. Save for the continuing connected transactions and connected transactions as set forth in the paragraphs headed "Continuing connected transactions" and "Connected transactions" above respectively, none of the related party transactions of the Company fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules and the Company has complied with or is exempt from the disclosure requirements under Chapter 14A of the Listing Rules during the year ended 31 December 2022.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 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 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").

	Number of Shares held		Number of underlying Shares held		Approximate percentage of total
Name of Director/Chief executive	Personal interest	Corporate interests	Personal interest	Total	issued Shares
Dr. Liu Ruopeng ("Dr. Liu")	–	2,618,500,000 (L) (Note 2)	–	2,618,500,000 (L)	42.53%
Dr. Liu Weiwen ("Dr. Liu W")	–	–	1,200,000 (L) (Note 3)	1,200,000 (L)	0.019%

Notes:

1. "L" represents long position in Shares/underlying Shares and "S" represents short position in Shares.

2. 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 Asia 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.

3. This represents interests in the share options of the Company held by Dr. Liu W.

4. As of 31 December 2022, the issued shares of the company were 6,156,928,860.

Save as disclosed above, as at 31 December 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.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 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%
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*

DIRECTORS' REPORT

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. Based on the disclosure of interests' forms submitted by these substantial shareholders respectively as of 31 December 2022.

5. As at 31 December 2022, the issued shares of the company were 6,156,928,860.

Save as disclosed above, as at 31 December 2022, the Company was not aware of any other person (other than the Director 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.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 31 July 2012, a share option scheme (the "Share Option Scheme") was adopted by the Company.

The purpose of the Share Option 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.

The total number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 10% of the shares in issue as at the adoption date of the Share Option Scheme (i.e. 31 July 2012) unless approval from the Company's shareholders has been obtained. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each individual in any twelve-month period up to and including the date of grant shall not exceed 1% of the shares in issue at the date of grant unless approval from Company's shareholders has been obtained.

The Directors have discretion to set a minimum period for which an option has to be held and the option period shall not exceed 10 years from the date of acceptance of option. HK$1 is payable on acceptance of an option within 21 days from the date of grant.

The exercise price shall be determined by the Directors of the Company, and shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

DIRECTORS' REPORT

No share option was granted in 2022 and 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. Therefore, the remaining life of the Share Option Scheme is nil as at the date of this report. As at 1 January 2022 and 31 December 2022, the number of options available for grant under the scheme mandate of the Share Option Scheme was 243,606,779 and nil. The total number of shares available for issue upon exercise of all options granted under the Share Option Scheme is 20,520,000 shares, representing approximately 0.33% of the issued shares of the Company as at the date of this report.

None of the Directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such share options during the period.

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 as at 1 January 2022	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31 December 2022
Employees	22.4.2021	0.229	22.4.2022-21.4.2026 [2]	23,370,000	–	–	(2,850,000)	20,520,000

(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.

(3) No option was cancelled during the Year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Share Option Scheme as mentioned above, at no time during the year ended 31 December 2022 was the Company or its subsidiaries, or fellow subsidiaries a party to any arrangements to enable the Directors or their respective associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DONATION

The Group has not made any charitable contributions or other donations during the year ended 31 December 2022.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year ended 31 December 2022.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained sufficient public float as required under the Listing Rules.

COMPETING INTERESTS

During the year ended 31 December 2022, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

DIRECTORS' REPORT

CHANGE IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVE PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Change in Director's and Chief executive's biographical details since the date of the Interim Report 2022 and up to the date of this report, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are set out below:

Name of Directors and Chief executive	Details of Change
Dr. Luan Lin	Dr. Luan Lin resigned as chief executive officer and chief technology officer of the Company with effect from 5 December 2022.
Dr. Liu Weiwen	Dr. Liu has been appointed as the chief executive officer of the Company with effect from 5 December 2022.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to, the Shares, they are advised to consult an expert.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events to cause material impact on the Group from the end of the year under review to the date of this report are set out in note 42 to the consolidated financial statements.

REVIEW BY THE AUDIT COMMITTEE

Audit Committee

The 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 (as defined in Corporate Governance Report). The Audit Committee has reviewed the audited results for the year ended 31 December 2022 and agreed with the accounting treatment adopted. The Audit Committee is satisfied with the Group's internal control procedure and financial reporting disclosures.

AUDITOR

The financial statements for the year ended 31 December 2022 have been audited by RSM Hong Kong. Crowe (HK) CPA Limited resigned as auditors of the Company with effect from 29 October 2021. RSM Hong Kong was appointed as auditor of the Company with effect from 29 October 2021 to fill the casual vacancy and was elected as the auditor of the Company at the annual general meeting of the Company held on 22 June 2022. A resolution will be submitted to the 2023 AGM to re-appoint RSM Hong Kong as Auditor of the Company.

On behalf of the Board

Dr. Liu Ruopeng
Chairman and Executive Director

Hong Kong, 30 March 2023

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report of the Group for the year ended 31 December 2022.

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 enhancing the shareholders' value and safeguarding the interests of the shareholders. Accordingly, the Company has adopted sound corporate governance principles that emphasis effective internal controls and accountability to all shareholders.

The Board is responsible for performing the corporate governance functions with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "CG Code"). During the year under review, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Company's code of conduct, and the Company's compliance with the Code Provision and disclosure in this Corporate Governance Report.

Save as the deviation from the code provisions C.5.1. and F.2.2 of the CG Code, the Company has complied with the CG Code during the year under review.

Code provision C.5.1 of the CG Code stipulates that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During the Year, a total of three regular meetings of the Board were held. The Board considers that the three meetings were sufficient to deal with matters of the Company. Apart from Board meetings, consent of directors on issues was also sought through circulating resolutions in writing.

Code provision 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 executive Director of the Company, took the chair of that meeting to answer questions to ensure effective communication with the shareholders at the meeting.

THE BOARD

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic decisions and performances. The senior management was delegated the authority and responsibilities by the Board of the day-to-day management and operations of the Group. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management.

All Directors have full and timely access to all relevant information in relation to the Company as well as the advice and services of the company secretary, if and when required, with a view ensuring that the Board procedures and all applicable rules and regulations are followed. To oversee particular aspects of the Company's affairs, the Board has established three Board Committees including the Audit Committee, the Remuneration Committee and the Nomination Committee (together the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

There are established procedures for Directors to seek independent professional advice for them to discharge their duties and responsibilities, where appropriate, at the Company's expenses.

CORPORATE GOVERNANCE REPORT

Board diversity

The Company has recognised the importance of board diversity to corporate governance and the board effectiveness in terms of examination and evaluation of corporate issues from different perspectives. As such, the Company updated its board diversity policy (the "Diversity Policy") and adopted the Nomination Policy which set out the objectives and principles regarding board diversity and nomination in December 2018.

Pursuant to the Diversity Policy, the effective implementation of the Diversity Policy requires that shareholders are able to judge for themselves whether the Board as constituted is a reflection of diversity, or a gradual move to increased diversity, on a scale and at a speed which they support.

The Board will also take into account the below aspects:

- Articulate the benefits of diversity, including gender diversity, and the importance of being able to attract, retain and motivate employees from the widest possible pool of available talent;
- To diversify at all levels, including gender, age, cultural and educational background, or professional experience;
- Assess annually on the diversity profile including gender balance of the directors and senior management and its progress in achieving its diversity objectives;
- Ensure that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered; and
- Has identified and implemented programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees and that, in time, their skills will prepare them for senior management and board positions.

During the Year, 19% (2021: 14%) of the workforce of the Company (including senior management) are female employees, and the Board consisted of eight Directors, among which one Director is female Director. The Board targets to maintain at least the current level of female representation, with the ultimate goal of achieving gender parity. The Board is also committed to providing career development and training opportunities to female employees whom we consider have the suitable experience, skills and knowledge with an aim to promote them to senior management members or directors and to develop a pipeline of potential successors to the Board to achieve gender diversity.

Having reviewed the Diversity Policy and the Board's composition, the Nomination Committee considered that the requirements set out in the Diversity Policy had been met.

CORPORATE GOVERNANCE REPORT

Nomination Policy

The Group adopted a nomination policy (the "Nomination Policy") in December 2018. A summary of this policy is disclosed as below.

Objective

The nomination committee of the Company ("Nomination Committee") shall nominate suitable candidates to the Board for it to consider and make recommendations to shareholders for election as directors of the Company at general meetings or appoint as Directors to fill casual vacancies or as an addition to the existing Board.

Selection Criteria

The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate:

- Reputation for integrity
- Accomplishment and experience
- Compliance with legal and regulatory requirements
- Commitment in respect of available time and relevant interest
- Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

Nomination Procedures

The Secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from Board members if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by Board members.

For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

Dividend Policy

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company (the "Shareholders") to allow Shareholders to share the Company's profits and for the Company to retain adequate reserves for future growth.

General power to declare dividends

Subject to the Bermuda Bye-Laws, the Company may from time to time in general meeting declare dividends in any currency to be paid to the members of the Company but no dividend shall be declared in excess of the amount recommended by the Board.

CORPORATE GOVERNANCE REPORT

Board's power to pay interim dividends

The Board may also, without convening a general meeting, from time to time declare interim dividends as appear to the Board to be justified by the profits of the Company, and, in particular (but without prejudice to the generality of the foregoing), if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend.

The Board may also pay half-yearly or at other intervals to be selected by it any dividend which may be payable at a fixed rate if the Board is of the opinion that the profits available for distribution justify the payment.

Board's power to declare and pay special dividends

The Board may in addition from time to time declare and pay special dividends on shares of any class of such amounts and on such dates as they think fit.

Dividends to be paid out of profits or reserves

No dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution, including share premium. No dividend shall carry interest against the Company.

The Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks fit as a reserve or reserves which shall, at the discretion of the Board, be applicable for meeting claims on or liabilities of the Company or contingencies or for paying off any loan capital or for equalising dividends or for any other purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit, and so that it shall not be necessary to keep any reserves separate or distinct from any other investments of the Company.

The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to distribute by way of dividend.

Scrip dividends

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment. In case of the Board elects to pay the dividend in shares, the Company shall abide by the provisions of the Bye-Laws of the Company on scrip dividends.

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time, and the Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

CORPORATE GOVERNANCE REPORT

Whistleblowing Policy

The Company has adopted a Whistleblowing Policy ("Whistleblowing Policy"), pursuant to which the Company aims to set up detailed procedures, enabling employees and those dealing with the Company (including customers and suppliers) to raise their concerns about any suspected misconduct or malpractice within the Group in confidence and anonymity, without fear of reprisal or victimisation.

Whistleblowing Policy is designed to encourage the Group's employees to report, in good faith, alleged malpractices or misconduct. Whistle-blowing matters may include, but not confined to:

- Breach of legal or regulatory requirements;
- Criminal offences, breach of civil law and miscarriages of justice;
- Malpractice, impropriety or fraud relating to internal controls, accounting, auditing and financial matters;
- Endangerment of the health and safety of an individual;
- Damage caused to the environment;
- Violation of the rules of conducts applicable within the Group;
- Improper conduct or unethical behavior likely to prejudice the standing of the Group; and
- Deliberate concealment of any of the above.

Procedures

The Whistleblowers should report the allegations or concerns to the Chairman of the Audit Committee by informing the Chairman of the Audit Committee at Hong Kong head office in writing, in a sealed envelope clearly marked "Strictly Private and Confidential – To be Opened by Addressee only" to ensure the confidentiality.

The Whistleblowers are required to put their name to any disclosures they make. Anonymous complaints would usually not be considered. If any other directors or the chief executive receive a report of fraud, corruption and misconduct, he/she should refer it to the Audit Committee to advise action being taken and if the Chairman of the Audit Committee disagrees with the action being taken, then the matter will be taken over by the Audit Committee. The Group will hold it a serious disciplinary offence for any person to seek to prevent a communication of malpractice concern reaching to the Chief Executive, the Chairman or the Chairman of the Audit Committee, or to impede any investigation which he/she or anyone on his/her behalf may make.

If there is evidence of criminal activity, activity of solicitation and acceptance of advantages or breach of legal and regulatory requirements, the party responsible for the internal investigation may legally be obliged to inform the relevant public or regulatory bodies such as the Hong Kong Police Force, the Independent Commission Against Corruption, the Security and Futures Commission or other bodies as appropriate.

CORPORATE GOVERNANCE REPORT

Investigation

The format and the length of an investigation will vary depending on the nature and particular circumstances of each complaint made. The matters raised may:

- be investigated internally;
- be referred to the Police;
- be referred to the External Auditor; and/or
- form the subject of an independent inquiry.

The Chairman of the Audit Committee will respond to the complainant in writing wherever reasonably practicable of the concern being received:

- acknowledging that the concern has been received;
- advising whether or not the matter is to be investigated further and if so what the nature of the investigation will be; and giving an estimate of how long the investigation will take to provide a final response; telling the complainant whether any initial enquiries have been made, and whether further investigations will take place, and if not, why not.

The Chairman of the Audit Committee report the investigation report to the board of directors of the Company ("Board") in a timely manner in a written format. The Chairman of the Audit Committee shall determine whether the complaints should be further reported or discussed by the Board, and seek for legal advice from legal professionals if necessary. All the documentation of investigation will be collected and retained by the Company Secretary. The Chairman of the Audit Committee should keep track of the status of investigation and resolution and the designated personnel doing it.

The Board will continually review the Whistleblowing Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Whistleblowing Policy at any time, and currently the Chairman of the Audit Committee is designated to investigate the complaint.

Composition

The Board currently comprises four executive Directors, one non-executive Director and three independent non-executive Directors from different business and professional fields. The Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business and professional expertise, experiences and independent judgement to the Board for its efficient and effective delivery of the Board function.

CORPORATE GOVERNANCE REPORT

At the date of this report, the Board comprises the following Directors:

Executive Directors

Dr. Liu Ruopeng
Dr. Luan Lin
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

The profiles of each Director are set out in the "Biographical Details of Directors and Senior Management" section on pages 33 to 35. Saved as disclosed in this annual report (if any), to the knowledge of the Directors, the Board members have no financial, business, family or other material relationship with each other.

Chairman and Chief Executive Officers

Dr. Liu Ruopeng is the chairman of the Company and Dr. Liu Weiwen is the chief executive officer ("CEO") of the Company. The roles of the chairman and CEO are served by different individuals to achieve a balance of authority and power. The main responsibility of the chairman is to lead the Board and manage its work to ensure that it effectively operates and fully discharges its responsibilities. Supported by the members of committees of the Board, the CEO is responsible for the day-to-day management of the Group's business, recommending strategies to the Board, and determining and implementing operational decisions.

Directors' and officers' insurance

The Company purchased the directors' and officers' liability insurance for members of the Board for the Year to provide protection against claims arising from the lawful discharge of duties by the Directors.

Independent Non-Executive Directors

Throughout the period and up to the date of this report, the Company has complied with the requirements under Rules 3.10 (1) and (2), and 3.10A of the Listing Rules. It requires at least three independent non-executive directors and that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. The Company has received written annual confirmation from each independent non-executive Director of their independence pursuant to the requirements of rule 3.13 of the Listing Rules. The Company considers all independent non- executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

In addition, the Company is committed to encouraging active participation of the independent non-executive Directors in the Board and committee meetings. To facilitate proper discharge of the Directors' duties, all independent non-executive Directors are entitled to seek advice from the Company Secretary of the Company and independent professional advisers (if applicable). As such, the Company considered that the current mechanisms in place are effective in ensuring that independent views and inputs are provided to the Board and the Board will review the implementation and effectiveness of such mechanisms on an annual basis.

CORPORATE GOVERNANCE REPORT

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including approving and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in appropriate circumstances and in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Appointments, re-election and removal of Directors

The bye-laws of the Company provide that any Director appointed by the Board, (i) to fill a casual vacancy in the Board, shall hold office only until the next following general meeting of the Company and shall be subject to re-election at such meeting, (ii) as an addition to the Board shall hold office until the next annual general meeting of the Company and shall then be eligible for re-election and (iii) one-third of the Directors for the time being shall retire from office by rotation, provided that every Director shall be subject to retirement by rotation at least once every three years.

Mr. Li Chiu Ho, being the non-executive Director, has entered into a service contract with the Company for the period commencing from 23 March 2022 to 22 March 2023, and was further renewed for a period commencing from 23 March 2023 to 22 March 2024.

Role and function of the Board and the management

An updated list of the Directors of the Company identifying their role and function is maintained on the websites of the Stock Exchange and the Company.

Compliance with the Model Code for Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its model code for securities transactions by Directors. All the 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 Year.

Directors' continuous training and development

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution into the Board remains informed and relevant. The Directors are committed to complying with the CG Code C.1.4 on directors' training. All Directors have participated in continuous professional development by attending seminars and/or studying materials relevant to director's duties and responsibility and provided a record of training they received for the financial year ended 31 December 2022 to the Company.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established three committees, namely the Remuneration Committee, Audit Committee and Nomination Committee, each of which has specific written terms of reference. Each of the committees is provided with sufficient resources to perform its duties.

Remuneration Committee

The Remuneration Committee comprises one executive Director and two independent non-executive Directors. The Committee is chaired by Dr. Wong Kai Kit with Dr. Zhang Yangyang and Dr. Deng Ke as members.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the remuneration policy and structure and remuneration packages of the executive Directors, non-executive Directors and senior management. The Remuneration Committee is also responsible for recommending to the Board of transparent and formal procedures for developing such remuneration policy and structure and ensuring no director or any of his associates will participate in deciding his own remuneration, and that the remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The written terms of reference of Remuneration Committee are available on the websites of the Stock Exchange and the Company.

During the year under review, the Remuneration Committee has reviewed and made recommendation to the Board on the remuneration policy and structure of the Company, and determined the remuneration packages of the Directors and senior management. Details of the five individuals with highest emoluments and Directors' remuneration are set out in notes 11 and 12 to the consolidated financial statements, respectively.

For the year ended 31 December 2022, there was one meeting held by the Remuneration Committee to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration package of the executive Directors and senior management and other related matter as well as assessing the performance of the executive Director. In addition, the Remuneration Committee had passed written resolutions to (i) determine the remuneration of Dr. Liu Weiwen, the CEO who has been appointed on 5 December 2022, and (ii) revise the terms of reference of Remuneration Committee regarding the extension of responsibility of the Remuneration Committee in share schemes under Chapter 17 of the Listing Rules.

Audit Committee

The Audit Committee comprises three independent non-executive Directors. The Committee is chaired by Mr. Choi Wing Koon with Dr. Wong Kai Kit and Dr. Deng Ke as members. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

(a) to review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor (if any) or external auditor before submission to the Board;

(b) to review the relationship with the external auditor by reference to the work performed, their fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditor; and

(c) to review the adequacy and effectiveness of the Company's financial reporting system, risk management and internal control systems and associated procedures.

CORPORATE GOVERNANCE REPORT

The written terms of reference of Audit Committee are available on the websites of the Stock Exchange and the Company.

The Audit Committee held three meetings during the year ended 31 December 2022 to review the interim and annual financial results, and pre-audit meeting to confirm the scope of audit works of the Company The Audit Committee also reviewed the risk management and internal control systems of the Group, as well as the effectiveness of the Group's audit function for the Year. Pursuant to the code provision D.3.3 of the CG Code, the Audit Committee should meet with the Company's auditors at least twice a year. The Company has complied with the CG Code D.3.3 during the year under review.

Nomination Committee

The Nomination Committee comprises one executive Director and two independent non-executive Directors. The Committee is chaired by Dr. Liu Ruopeng with Dr. Wong Kai Kit and Dr. Deng Ke as members.

The principal responsibilities of the Nomination Committee are regular review of the Board composition, identifying and nominating suitable candidates as Board members, assessment of the independence of the independent non-executive Directors and Board evaluation. The Nomination Committee also reviews the structure, size and composition (including the skills, knowledge, experience and gender) of the Board at least annually and makes recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The written terms of reference of Nomination Committee are available on the websites of the Stock Exchange and the Company.

The Board adopted the Board Diversity Policy setting out the approach to diversify members of the Board since 2016 and updated in December 2018. The Company believes that a diversified perspective can be achieved through implementation of the Board Diversity Policy. The diversity of the Board members should be assessed on a diversity of perspectives including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on objective criteria, merit and contribution that the selected candidates will bring to the Board having due regard for the benefits of diversity on the Board.

For the year ended 31 December 2022, one Nomination Committee meeting was held to (1.) review of the structure, size and diversity of the Board; (2.) assessment and confirmation of the independence of the independent non-executive Directors; (3.) consider the re-appointment of retiring directors at the annual general meeting of the Company, and (4.) review the board diversity policy of the Company.

Meetings

Regular Board meetings are recommended to held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. Although the Board met three times during the year ended 31 December 2022, the Board considers that the three meetings were sufficient to deal with matters of the Company. Apart from Board meetings, consent of directors on issues was also sought through circulating resolutions in writing.

CORPORATE GOVERNANCE REPORT

Agenda and Board papers together with adequate information which is accurate, clear, complete and reliable are normally sent to all Directors in a timely manner before each Board meeting to keep the Directors apprised to the latest developments and financial position of the Company and to enable them to make informed decisions. All Directors are given the opportunity to include matters in the agenda for regular Board meetings. The Board and each Director also have separate and independent access to senior management whenever necessary.

Minutes of all Board meetings, other Board Committee meetings and general meetings contain sufficient details of matters considered and decisions reached are kept by the secretary of the meetings and are open for inspection at any reasonable time on reasonable notice by any Directors. The attendance of individual members of the Board meetings, other Board Committee meetings and general meetings during the year ended 31 December 2022 is set out in the table below:

	Meetings attended/Eligible to attend				
	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Dr. Liu Ruopeng	1/3	N/A	N/A	1/1	0/1
Dr. Zhang Yangyang	2/3	N/A	1/1	N/A	0/1
Dr. Luan Lin	3/3	N/A	N/A	N/A	1/1
Dr. Ji Chunlin	3/3	N/A	N/A	N/A	0/1
Non-executive Director					
Mr. Li Chiu Ho	3/3	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Dr. Wong Kai Kit	3/3	3/3	1/1	1/1	1/1
Mr. Choi Wing Koon	3/3	3/3	N/A	N/A	1/1
Dr. Deng Ke	3/3	3/3	1/1	1/1	1/1

Apart from regular Board meetings, the Chairman, Dr. Liu Ruopeng, also held a meeting with the independent non-executive Directors without the presence of executive Directors during the year under review.

Conflict of interest

If a substantial shareholder or a Director has a conflict of interest in relation to a transaction or proposal to be considered by the Board which the Board has determined to be material, the individual is required to declare such interest and to abstain from voting. The matter is considered at a physical Board meeting attended by Directors who have no material interest in the transaction. The Group also adopted certain internal control policies to manage potential conflicts of interest.

CORPORATE GOVERNANCE REPORT

Corporate Governance function

The Board is responsible for developing and reviewing the Company's policies and practices on corporate governance and performing corporate governance duties as set out in code provision A.2.1 of the CG Code. The following is a non-comprehensive summary of the duties performed by the Board for the Year:

- Reviewed and monitored the training and continuous professional development of Directors;
- Reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- Reviewed and monitored the code of conduct applicable to employees and Directors; and
- Reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

COMPANY SECRETARY

The Company's secretarial functions are outsourced to external service provider. Pursuant to code C.6.1 of the CG Code, the primary contact person and reporting person at the Company is Dr. Liu Weiwen, the CEO of the Company. All Directors may access to the advice and services of the Company Secretary. The Company Secretary regularly updates the Board on governance and regulatory matters.

The Board is fully involved in selection, appointment and dismissal of the Company Secretary. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

For the year ended 31 December 2022, the Company Secretary has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROL

Directors' responsibilities for the Financial Statements

The Directors acknowledge their responsibility for preparing the accounts and financial statements of the Group and have adopted the accounting principles generally accepted in Hong Kong and compiled with the requirements of Hong Kong Financial Reporting Standards which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. As at 31 December 2022, Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis. The accounting systems, risk management and internal control systems of the Company are designed to prevent any misappropriation of the Company's assets, any unauthorised transactions as well as to ensure the accuracy of the accounting records and the true and fairness of the financial statements. Pursuant to the code provision D.1.1 of the CG Code, the management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

CORPORATE GOVERNANCE REPORT

The Board also acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's financial reports, inside information announcements and other financial disclosures required under Listing Rules, and reports to the regulators as well as information required to be disclosed pursuant to statutory requirements. The reporting responsibilities of the Company's independent auditor are set out in the Independent Auditor's Report on pages 67 to 69.

Risk management and internal control

The Board, recognising its overall responsibility in ensuring the systems of risk management and internal controls of the Company, determining the nature and extent of significant risks (including, among others, material risks relating to ESG) and for reviewing their effectiveness, is committed to implement an effective and sound risk management and internal control systems to safeguard the interests of shareholders and the assets of the Group against unauthorised use or disposition. The risk management and internal control systems are designed to manage rather than eliminate the risk to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board designated this responsibility to Audit Committee. The risk management and internal control systems are reviewed and assessed on an on-going basis by the Audit Committee and the Board, and will be further reviewed and assessed at least once each year by the Board. During the year under review, the Audit Committee has conducted a review of the effectiveness and adequacy of the risk management and internal control systems of the Group covering all material controls, including financial, operational and compliance controls and risk management functions, and has reached the conclusion that the Group's risk management and internal control systems were in place, effective and adequate. As at the date of this report, the Company has an internal audit function.

Procedures for the handling and dissemination of inside information

The Group has established procedures in handling and dissemination of inside information in an accurate, secure and timely manner and to avoid possible mishandling of inside information within the Group.

The Group complies with requirements of the SFO and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

CORPORATE GOVERNANCE REPORT

External auditor and auditor's remuneration

For the year ended 31 December 2022, the total remuneration in respect of the audit services and other services provided by the external auditor, RSM Hong Kong, of the Company were as follows:

Services rendered for the Company

	HK$'000
Audit services for the year	1,300,000
Non-audit services	43,800
Total	1,343,800

SHAREHOLDER RIGHTS, INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

Shareholders' rights

To safeguard shareholder interest and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors.

Enquiries of shareholders can be sent to the Company by post to the Company's Shenzhen head office at 301-B077, Building 2, No. 1, Mawu Road, Baoan Community, Yuanshan Street, Longgang District, Shenzhen, PRC, Postal code: 518115. Shareholders' enquiries and concerns, where appropriate, will be forwarded to and answered by the Board. In addition, shareholders can contact the share registrar of the Company if they have any enquiries about their shareholdings. All resolutions put forward at shareholder meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Stock Exchange and the Company after each shareholder meeting.

Pursuant to the Bye-Laws of the Company, the Board may whenever it thinks fit call special general meetings, and the shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business or other proposals specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

Investor relations and communications with shareholders

The Board recognises the importance of good communication with shareholders. The Company has established a shareholders communication policy to set out the Company's procedures in providing shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company.

Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents together with the latest corporate information are also made available on the Company's website.

CORPORATE GOVERNANCE REPORT

The Company regards the annual general meeting of the Company as an important event and all Directors, senior management and external auditor make an effort to attend the annual general meeting of the Company to address shareholders' queries. Shareholders are encouraged to attend all general meetings of the Company, such as the annual general meeting for which at least 21 clear days or 20 clear business days notice is given (whichever is longer). In consideration of the above measures, the Board has reviewed the implementation and the effectiveness of the shareholders' communication policy during the Year and considered the review result to be satisfactory.

The Company has complied with the requirements concerning voting by poll under the Listing Rules. Details of the poll voting procedures and the rights of shareholders to demand a poll are included in circulars to shareholders of the Company dispatched by the Company where applicable.

Constitutional documents

For the year ended 31 December 2022, to bring the Bye-laws in line with the latest legal and regulatory requirements, including the amendments made to Appendix 3 to the Listing Rules which took effect on 1 January 2022; and make other consequential and house-keeping amendments of the Company, the Board of the Company proposed to revise several contents as stated in the Bye-laws. The amendments were duly passed by the shareholders of the Company at the annual general meeting of the Company held on 22 June 2022. For details of the amendment to the Bye-laws, please refer to the circular of the Company dated 29 April 2022. Save as disclosed above, there was no change in the Bye-laws during the year ended 31 December 2022. The amended and restated Bye-laws is available on the websites of the Stock Exchange and the Company.

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of KuangChi Science Limited
(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of KuangChi Science Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 143, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we identified are:

1. Impairment assessment of property, plant and equipment and right-of-use assets

2. Recoverability of trade receivables and contract assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of property, plant and equipment and right-of-use assets Refer to notes 6(c), 16 and 18 to the consolidated financial statements. The carrying amounts of the Group's property, plant and equipment and right-of-use assets as at 31 December 2022 were HK$437,600,000 and HK$73,608,000, respectively, which in aggregate represented approximately 25.8% of the total assets of the Group. Given the Group was loss making for the year, there is a risk that the carrying amounts of these assets are higher than their recoverable amounts. Management carried out impairment assessments, with assistance from independent external professional valuers, which involved estimating the recoverable amounts of the assets. Management determined their recoverable amounts based on the fair value less costs of disposal of the relevant assets, and considered no further impairment losses on these assets were necessary as at 31 December 2022. We identified the impairment assessment on property, plant and equipment and right-of-use assets as a key audit matter due to the significance of the balances to the consolidated financial statements, combined with the estimation of recoverable amounts of the assets involved significant management judgement. The inherent risk in relation to the impairment assessment is also considered significant.	Our audit procedures in relation to the management's assessment for impairment of property, plant and equipment and right-of-use assets included: • Discussing and evaluating management's identification of indicators of potential impairment; • Evaluating the competence, capability and objectivity of the independent external professional valuers; • Obtaining and reviewing the valuation reports prepared by the external valuers engaged by the Group; • Obtaining an understanding from the external valuers about the valuation methodology, the performance of the property markets, significant assumptions adopted, critical judgement on key inputs and data used in the valuations; • Assessing the reasonableness of source data used in the valuations by benchmarking the assumptions to relevant market information on sales prices achieved by the similar properties in the neighbourhood and by verifying the costs of completion to supporting documentation; and • Checking the arithmetical accuracy of the fair value less costs of disposal calculations.

INDEPENDENT AUDITOR'S REPORT

RSM

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables and contract assets Refer to notes 5.1(b), 6(b), 22 and 23 to the consolidated financial statements. As at 31 December 2022, the Group's gross trade receivables and contract assets amounted to HK$77,815,000 and HK$24,362,000, before loss allowance of HK$54,786,000 and HK$10,629,000, respectively, which were material to the consolidated financial statements of the Group. Management performed credit evaluations for the Group's customers and assessed expected credit losses ("ECL") of trade receivables and contract assets. These assessments were focused on the customers' settlement history and their current ability to pay, took into account information specific to respective customer as well as pertaining to the economic environment in which the customer operated, including historical experience and forward-looking information. All of these assessments involved significant judgements of management. We identified the recoverability of trade receivables and contract assets as a key audit matter due to the significance of the balances to the consolidated financial statements, combined with the significant degree of estimations made by management in estimating ECL of trade receivables and contract assets which may affect the carrying amounts at the end of the reporting period.	Our audit procedures in relation to the management's assessment for impairment of trade receivables and contract assets included: • Obtaining an understanding of and evaluating the key controls over management's credit evaluations and the management's assessment of the ECL of trade receivables and contract assets; • Evaluating the outcome of prior period assessment of management's assessment for impairment of trade receivables or contract assets to assess the effectiveness of management's evaluation process; • Testing the mathematical accuracy of the ECL model on trade receivables and contract assets prepared by management; • Testing whether items in the aging of trade receivables and contract assets were categorised appropriately on a sample basis; • Where impairment assessment was individually made, assessing whether the loss allowance was properly supported by considering available forward-looking information, the customer's aging analysis, settlement and bad debt loss history; and • Assessing the reasonableness of the ECL by testing the calculation of the historical default rate and evaluating the reasonableness of the forward-looking adjustments made to reflect current and forecast future economic conditions that applied in the provision matrix, with the assistance of our internal valuation experts.

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosures requirements of the Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981 and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

INDEPENDENT AUDITOR'S REPORT

RSM

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Liu Eugene.

RSM Hong Kong
Certified Public Accountants

30 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Note	2022 HK$'000	2021 HK$'000
Revenue	7	**52,523**	113,972
Cost of sales		**(41,697)**	(72,242)
Gross profit		**10,826**	41,730
Other income	8	**11,602**	21,013
Other (losses)/gains, net	8	**(23,271)**	3,725
(Impairment loss)/reversal of impairment loss on trade receivables	23(b)	**(3,328)**	2,266
Impairment loss on contract assets	23(b)	**(123)**	(9,484)
Selling and distribution expenses		**(22,879)**	(35,495)
Research and development expenses		**(11,377)**	(18,217)
Administrative expenses		**(31,671)**	(48,637)
Operating loss	9	**(70,221)**	(43,099)
Finance income		**2,404**	2,698
Finance costs		**(95)**	(207)
Finance income, net	10	**2,309**	2,491
Loss before tax		**(67,912)**	(40,608)
Income tax expense	13	**–**	–
Loss for the year		**(67,912)**	(40,608)
Loss for the year attributable to owners of the Company		**(67,912)**	(40,608)
Loss per share			
Basic (HK cents per share)	14	**(1.10)**	(0.66)
Diluted (HK cents per share)	14	**(1.10)**	(0.66)

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	2022 HK$'000	2021 HK$'000
Loss for the year		**(67,912)**	(40,608)
Other comprehensive income after tax:			
Items that may be reclassified to profit or loss:			
Release of other reserves upon deregistration of subsidiaries		**688**	–
Exchange differences on translation of foreign operations		**(163,172)**	40,663
		(162,484)	40,663
Items that will not be subsequent reclassified to profit or loss:			
Changes in fair value of financial assets at fair value through other comprehensive income ("FVOCI") – gross		**(443,814)**	252,367
Less: Deferred tax		**66,572**	(26,823)
		(377,242)	225,544
Other comprehensive income, net of tax		**(539,726)**	266,207
Total comprehensive income for the year		**(607,638)**	225,599
Total comprehensive income for the year attributable to owners of the Company		**(607,638)**	225,599

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Note	**2022 HK$'000**	2021 HK$'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	16	**437,600**	449,390
Investment properties	17	**115,309**	130,355
Right-of-use assets	18	**73,608**	85,377
Intangible assets	19	**225**	411
Financial assets at FVOCI	20	**1,080,646**	1,654,730
Total non-current assets		**1,707,388**	2,320,263
CURRENT ASSETS			
Inventories	21	**14,857**	8,537
Contract assets	22	**13,733**	–
Trade and other receivables	23	**77,851**	120,563
Financial asset at fair value through profit or loss ("FVPL")	24	**2,016**	21,488
Loans receivables	25	**–**	–
Pledged bank deposits	26	**894**	1,679
Bank and cash balances	26	**162,948**	297,190
Total current assets		**272,299**	449,457
Total assets		**1,979,687**	2,769,720

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Note	2022 HK$'000	2021 HK$'000
EQUITY			
Share capital	32	**61,569**	61,569
Other reserves	33	**2,059,659**	2,598,798
Accumulated losses		**(504,231)**	(436,319)
Equity attributable to owners of the Company		**1,616,997**	2,224,048
Non-controlling interests		**–**	(2)
Total equity		**1,616,997**	2,224,046
LIABILITIES			
NON-CURRENT LIABILITIES			
Lease liabilities	29	**–**	346
Bank borrowings	30	**118,860**	153,507
Deferred tax liabilities	31	**122,152**	204,852
Total non-current liabilities		**241,012**	358,705
CURRENT LIABILITIES			
Trade and other payables	27	**67,849**	128,305
Contract liabilities	22	**115**	325
Deferred government grants	28	**18,603**	20,193
Lease liabilities	29	**318**	611
Bank borrowings	30	**22,562**	24,490
Current tax payable		**12,231**	13,045
Total current liabilities		**121,678**	186,969
Total liabilities		**362,690**	545,674
Total equity and liabilities		**1,979,687**	2,769,720

The consolidated financial statements on pages 70 to 143 were approved and authorised for issue by the Board of Directors on 30 March 2023 and were signed on its behalf:

Dr. Liu Ruopeng
DIRECTOR

Dr. Luan Lin
DIRECTOR

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to owners of the Company					
	Share capital HK$'000 (note 32)	**Other reserves** HK$'000 (note 33)	**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 year	–	–	(40,608)	(40,608)	–	(40,608)
Other comprehensive income for the year:						
– Currency translation differences	–	40,663	–	40,663	–	40,663
– Changes in fair value of financial assets at FVOCI, net of deferred tax	–	225,544	–	225,544	–	225,544
Total comprehensive income for the year	–	266,207	(40,608)	225,599	–	225,599
Transfer upon disposal of financial assets at FVOCI	–	(82,148)	82,148	–	–	–
Recognition of share-based payments	–	971	–	971	–	971
Aggregate current and deferred tax relating financial assets at FVOCI that are charged directly to equity	–	–	59,191	59,191	–	59,191
At 31 December 2021	61,569	2,598,798	(436,319)	2,224,048	(2)	2,224,046
At 1 January 2022	**61,569**	**2,598,798**	**(436,319)**	**2,224,048**	**(2)**	**2,224,046**
Loss for the year	**–**	**–**	**(67,912)**	**(67,912)**	**–**	**(67,912)**
Other comprehensive income for the year:						
– Currency translation differences	**–**	**(162,484)**	**–**	**(162,484)**	**–**	**(162,484)**
– Changes in fair value of financial assets at FVOCI, net of deferred tax	**–**	**(377,242)**	**–**	**(377,242)**	**–**	**(377,242)**
Total comprehensive income for the year	**–**	**(539,726)**	**(67,912)**	**(607,638)**	**–**	**(607,638)**
Deregistration of a subsidiary	**–**	**–**	**–**	**–**	**2**	**2**
Recognition of share-based payments	**–**	**587**	**–**	**587**	**–**	**587**
At 31 December 2022	**61,569**	**2,059,659**	**(504,231)**	**1,616,997**	**–**	**1,616,997**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	2022 HK$'000	2021 HK$'000
Cash flow from operating activities			
Cash (used in)/generated from operations	37(a)	**(77,817)**	105,428
Interest paid		**(95)**	(207)
Net cash (used in)/generated from operating activities		**(77,912)**	105,221
Cash flow from investing activities			
Purchase of property, plant and equipment		**(14,912)**	(21,931)
Interest paid for construction in progress		**(11,512)**	(12,615)
Purchase of intangible assets		**–**	(474)
Proceeds from disposal of property, plant and equipment		**549**	36
Interest received		**2,404**	2,698
Dividend received		**8,819**	–
Decrease in pledged deposits		**653**	774
Increase in time deposits with maturity over three months		**(90,248)**	–
Proceeds from disposal of financial assets at FVOCI		**–**	452,721
Net cash outflow from acquisition of subsidiaries	36	**–**	(51,997)
Net cash (used in)/generated from investing activities		**(104,247)**	369,212
Cash flow from financing activities			
Proceeds from bank borrowings		**–**	4,307
Repayment of bank borrowings		**(23,214)**	(12,245)
Repayment of other borrowings		**–**	(317,020)
Repayments of principal portion of lease payments		**(580)**	(1,008)
Net cash used in financing activities		**(23,794)**	(325,966)
Net (decrease)/increase in cash and cash equivalents		**(205,953)**	148,467
Cash and cash equivalents at the beginning of the year		**297,190**	147,812
Effect of exchange rate changes on cash and cash equivalents		**(18,537)**	911
Cash and cash equivalents at the end of the year		**72,700**	297,190
Analysis of cash and cash equivalents			
Cash and cash equivalents	26	**72,700**	297,190

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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 in the research, and development and manufacturing of innovative products for future technology business and provision of other innovative technology service solution.

In the opinion of the directors of the Company, its immediate holding company is New Horizon Wireless Technology Limited which is incorporated in the British Virgin Islands (the "BVI"). Its ultimate holding company is Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership which was established in the People's Republic of China (the "PRC"). Its ultimate controlling party is Dr. Liu Ruopeng, who is also an executive director of the Company.

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

2 BASIS FOR PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed in note 4 below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

The Group incurred losses of HK$67,912,000 and HK$40,608,000 for the years ended 31 December 2022 and 2021, respectively. In preparing these consolidated financial statements, the directors of the Company have given careful consideration to the impact of the current and anticipated future liquidity of the Group and the Company and the ability of the Group and the Company to attain profit and positive cash flows from operations in the immediate and longer term.

After taking into account the available financial resources, the directors believe that the Group will have sufficient working capital to finance its operations and to meet its financial liabilities as and when they fall due in the foreseeable future. Accordingly, the directors consider that it is appropriate to prepare these consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2022 for the preparation of the consolidated financial statements:

Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16 (March 2021)	Covid-19-Related Rent Concessions beyond 30 June 2021
Annual Improvements Project	Annual Improvements to HKFRS Standards 2018-2020
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations

The Group did not change its accounting policies or make retrospective adjustments as a result of adopting the abovementioned amended standards or annual improvements.

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

The Group has not applied any new standard, amendments to standards and interpretation that have been issued but are not yet effective for the financial year beginning 1 January 2022. The new standard, amendments to standards and interpretation include the following which may be relevant to the Group.

	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 HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8 – Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12 – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
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
Amendments to HKFRS 16 – Lease Liability in a Sales and Leaseback	1 January 2024
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES

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

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas when assumptions and estimates are significant to the consolidated financial statements are disclosed in note 6.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

4.1 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated exchange translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 Separate financial statements

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale). Cost includes direct attributable costs of investments. The results of subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

4.3 Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss. Foreign currency gains or losses are presented in the consolidated statement of profit or loss on a net basis within "other gains/(losses), net".

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the entity initially recognises such non-monetary assets or liabilities. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are measured.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all foreign operations (none of which has the currency of hyperinflationary economy) that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.4 Foreign currency translation (Continued)

(iii) Translation on consolidation (Continued)

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the exchange translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4.5 Property, plant and equipment

Property, plant and equipment are held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below). Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	Over the shorter of lease term or 20 years
Plant and machinery	6.6% – 50%
Furniture and fixtures	8% – 33%
Office equipment	10% – 50%
Motor vehicles	10% – 33%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress represents buildings under construction or plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rentals and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Depreciation is calculated on a straight-line basis over their estimated useful lives of 26 to 27 years.

An investment property is derecognised upon disposal or when the investment property is withdrawn from use. Any gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 4.19.

4.7 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) The Group as a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. Lease payments to be made under reasonably certain extension options are also included in the measurement of the lease liability. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Leases (Continued)

(i) The Group as a lessee (Continued)

To determine the incremental borrowing rate, the Group:

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by group entities, which do not have recent third-party financing, and

- makes adjustments specific to the lease including term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated amortisation and impairment losses, except for the right-of-use assets that meet the definition of investment property in accordance with note 4.6.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are amortised on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16. In such cases, the Group took advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Leases (Continued)

(ii) The Group as a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

4.8 Intangible assets other than goodwill

(i) Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from development activities (or from development phase of an internal project) is recognised only if all of the following conditions are met:

– The technical feasibility of completing the intangible asset so that it will be available for use or sale;

– Management intends to complete the intangible asset and use or sell it;

– There is ability to use or sell the intangible asset;

– It can be demonstrated how the intangible asset will generate probable future economic benefits;

– Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

– The expenditure attributable to the intangible asset during its development can be reliably measured.

Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

(ii) Amortisation

Intangible assets (both internally-generated or acquired separately) are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives as follows:

Technical knowhow and patents	3–10 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 Intangible assets other than goodwill (Continued)

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

4.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

4.10 Contract assets and contract liabilities

Contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("ECL") in accordance with the policy set out in note 4.26 and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

(i) Debt investments

Debt investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

– FVOCI - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of ECL, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the financial assets at FVOCI reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the financial assets at FVOCI reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method less allowance for ECL.

4.14 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for ECL.

4.15 Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out in the respective notes below.

4.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

4.17 Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

4.18 Equity instruments

An equity instrument is any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.19 Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer. The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

(a) Revenue from sales of artificial intelligent coverage system and related products

Artificial intelligent ("AI") coverage system and related products allows full-intelligent security applications in the security field. Revenue is recognised over time as the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a total estimated costs for each contract.

(b) Revenue from provision of technical support services based on AI technology

Revenue from provision of technical support services based on AI technology is recognised over time as technical support services are transferred over time, and customers simultaneously receive and consume the benefits from technical support service provided by the Group.

(c) Revenue from sales of wearable smart helmets

Revenue from sales of wearable smart helmets is recognised at a point in time when control of the products has transferred being when the products are delivered to customers' specific location, the customer has accepted the products and the Group has present right to payment and the collection of the consideration is probable.

(d) Revenue from provision of procurement services

Procurement service fee revenue is primarily earned from transactions in which the Group earns commissions by procurement of goods on behalf of customers. Procurement service revenue from those transactions is reported on a net basis as the purchase price collected from the customer less the portion of the purchase price that is payable to merchants. The Group recognises revenue from those transactions at a point in time when the commission has been earned, which occurs when the goods are made available and control of the goods passed to the customers directly from the merchants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.19 Revenue and other income (Continued)

(e) ***Interest income***

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

(f) ***Rental income***

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(g) ***Dividend income***

Dividend income is recognised when the shareholders' rights to receive payment are established.

4.20 Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.21 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group operates various post-employment schemes, i.e. defined contribution pension plans.

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

4.22 Share-based payments

The Group issues equity-settled share-based payments to certain directors and employees.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

4.23 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asses. Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.24 Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.24 Taxation (Continued)

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis, or to realise the asset and settle the liability simultaneously.

4.25 Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the CGU.

Value in use is the present value of the estimated future cash flows of the asset/CGU. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/CGU whose impairment is being measured.

Impairment losses for CGUs are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the CGU. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.26 Impairment of financial assets and contracts assets

The Group recognises a loss allowance for ECL on all debt instruments not held at fair value through profit or loss. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.26 Impairment of financial assets and contracts assets (Continued)

Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk for a particular financial instrument;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor;

– significant increases in credit risk on other financial instruments of the same debtor; and

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) the financial instrument has a low risk of default,

(ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.26 Impairment of financial assets and contracts assets (Continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

– significant financial difficulty of the issuer or the counterparty;

– a breach of contract, such as a default or past due event;

– the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider;

– it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.26 Impairment of financial assets and contracts assets (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

4.27 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

4.28 Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's major financial instruments include bank and cash balances, pledged bank deposits, trade and other receivables, financial assets at FVOCI, financial assets at FVPL, trade and other payables, lease liabilities and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollars ("USD"). Other than that, the Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities, HK$ and Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Financial assets and financial liabilities denominated in currency other than the entities' functional currency are summarised as follows:

	2022 **HK$'000**	2021 HK$'000
Denominated in USD		
Assets	**54,612**	80,327
Liabilities	**–**	(15,009)
	54,612	65,318

The above financial assets and financial liabilities denominated in USD are mainly attributable from the Group's entities which functional currency is HK$. Since HK$ are pegged to the USD, management considers the foreign exchange risk of USD financial assets and liabilities to the Group is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5 FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk

The Group's interest-rate risk arises from borrowings with variable rates. It is the Group's policy to keep certain of its borrowings at floating interest rates so as to reduce the fair value interest rate risk.

For the year ended 31 December 2022, a 100 basis points (2021: 100 basis points) increase/decrease is used which represents management's assessment of the reasonably possible change in interest rates. If interest rate had been 100 basis points (2021: 100 basis points) higher/lower with all other variables held constant, the Group's post-tax loss for the year would increase/decrease approximately HK$1,061,000 (2021: HK$1,335,000).

The Group's borrowings at the end of the reporting period are as follows:

	2022		2021	
	HK$'000	**% of total loans**	HK$'000	% of total loans
Variable rate borrowings:				
12 months or less	**22,562**	**16%**	24,490	14%
Over 1–5 years	**118,860**	**84%**	153,507	86%
	141,422	**100%**	177,997	100%

An analysis by maturities is provided in note 5.1(c). The percentage of total loans shows the proportion of loans that are currently at variable rates in relation to the total amount of borrowings.

(iii) Price risk

The Group is exposed to equity price risk mainly through its investments in equity securities, which are classified as financial assets at FVOCI and financial assets at FVPL. The Group's equity price risk is mainly concentrated on equity securities quoted on the Shenzhen Stock Exchange.

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period. If equity prices had been 10% higher/lower (2021: 10% higher/lower):

- loss after tax for the year ended 31 December 2022 would decrease/increase by HK$202,000 (2021: HK$2,149,000). This is mainly due to the changes in fair value of financial assets at FVPL; and

- other comprehensive income, net of tax, for the year ended 31 December 2022 would increase/decrease by HK$91,855,000 (2021: HK$140,652,000) as a result of the changes in fair value of financial assets at FVOCI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5 FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade and other receivables, and contract assets) and from its financing activities, including pledged bank deposits, bank and cash balances and loans receivables.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information as described in note 4.26.

(i) Pledged bank deposits and bank and cash balances

The Group's exposure to credit risk arising from pledged bank deposits and bank and cash balances is limited because most of the counterparties are state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

(ii) Other receivables

Other receivables were mainly comprised of rental and other deposits and other tax recoverable. The credit quality of deposits and other receivables has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. Given there is no history of defaults from these counterparties, the directors of the Company are of the opinion that the risk of default is not significant and does not expect any losses from non-performance by the counterparties. Therefore, ECL rate of the other receivables is assessed to be minimal.

(iii) Loans receivables

The credit risk of loans receivables are managed through internal process of the Group. The Group actively monitors the outstanding amounts owned by each debtor and identifies any credit risk in a timely manner in order to reduce the risk of a credit related loss. In addition, the Group, accounts for its credit risk by appropriately providing for ECL. In calculating the ECL rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data. In this regard, the directors of the Company considered that the Group's credit risk is significantly reduced.

As at 31 December 2022 and 2021, the loans receivables were credit impaired and the recoverability of which was low. As such, the carrying amounts of the loans receivables were fully impaired.

(iv) Trade receivables and contract assets

For trade receivables and contract assets, the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group applies the simplified approach to provide for ECL prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5 FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(iv) Trade receivables and contract assets (Continued)

To measure the ECL, trade receivables and contract assets have been grouped based on aging. For customers relating to accounts which are long overdue with significant amounts, known insolvencies or non-response to collection activities, they are assessed individually for impairment loss.

The ECL rates are based on the payment profiles of sales and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 31 December 2022 and 2021 was determined as follows for trade receivables and contract assets:

	Contract assets	Trade receivables						
	Days past due	Days past due						
	Current HK$'000	Current HK$'000	1-90 days HK$'000	91-180 days HK$'000	181-365 days HK$'000	1-2 years HK$'000	Over 2 years HK$'000	Total HK$'000
At 31 December 2022								
Provision on individual basis								
Expected loss rate	**100%**	**–**	**N/A**	**N/A**	**N/A**	**N/A**	**100%**	**–**
Gross carrying amount	**10,533**	**–**	**N/A**	**N/A**	**N/A**	**N/A**	**49,819**	**49,819**
Loss allowance	**10,533**	**–**	**N/A**	**N/A**	**N/A**	**N/A**	**49,819**	**49,819**
Provision on collective basis								
Expected loss rate	**0.7%**	**0.7%**	**0.7%**	**2.07%**	**4.2%**	**24%**	**62%**	**–**
Gross carrying amount	**13,829**	**5,799**	**15,429**	**396**	**–**	**1,496**	**4,876**	**27,996**
Loss allowance	**96**	**40**	**106**	**8**	**–**	**359**	**4,454**	**4,967**
At 31 December 2021								
Provision on individual basis								
Expected loss rate	100%	N/A	N/A	N/A	N/A	100%	100%	–
Gross carrying amount	11,433	–	–	–	–	2,460	51,653	54,113
Loss allowance	11,433	–	–	–	–	2,460	51,653	54,113
Provision on collective basis								
Expected loss rate	1.2%	1.2%	1.2%	3.5%	7.1%	24.0%	62.0%	–
Gross carrying amount	–	53,944	6,997	–	–	1,576	1,068	63,585
Loss allowance	–	710	84	–	–	378	662	1,834

As at 31 December 2022, the Group has concentration at credit risk at 94% (2021: 74%) of the total trade debtors were due from the Group's five largest customers for the year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5 FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors (Continued)

(c) Liquidity risk

To manage liquidity risk, the Group monitors and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's daily operations and mitigate the effects of fluctuations in cash flows. Management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

Liquidity risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

Specifically, for bank and other borrowing which contain a repayable on demand clause which can be executed at the bank and the borrower's sole discretion, the analysis shows the cash outflow based on the earliest date in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year or on demand HK$'000	2-5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2022					
Trade and other payables	**67,849**	**–**	**–**	**67,849**	**67,849**
Lease liabilities	**328**	**–**	**–**	**328**	**318**
Bank borrowings	**32,196**	**139,086**	**–**	**171,282**	**141,422**
	100,373	**139,086**	**–**	**239,459**	**209,589**
At 31 December 2021					
Trade and other payables	117,108	–	–	117,108	117,108
Lease liabilities	681	356	–	1,037	957
Bank borrowings	36,588	149,386	36,532	222,506	177,997
	154,377	149,742	36,532	340,651	296,062

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5 FINANCIAL RISK MANAGEMENT (Continued)

5.2 Capital risk management

The Group manages its capital to ensure that the group companies will be able to continue as a going concern while maximising the return to shareholders through the optimisation of debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The Group monitors capital on the basis of the gearing ratio. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including lease liabilities and bank and other borrowings as shown in the consolidated statement of financial position) less pledged bank deposits and bank and cash balances. Total capital is calculated as "Total equity", as shown in the consolidated statements of financial position, plus net debt.

The gearing ratios as at 31 December 2022 and 2021 are as follows:

	Note	**2022** **HK$'000**	2021 HK$'000
Bank borrowings	30	**141,422**	177,997
Lease liabilities	29	**318**	957
Less: Pledged bank deposits and bank and cash balances	26	**(163,842)**	(298,869)
Net debt		**N/A**	N/A
Total equity		**N/A**	N/A
Total capital		**N/A**	N/A
Gearing ratio		**N/A**	N/A

The directors review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associate with each class of capital. Based on recommendations of the directors, the Group will balance their overall capital structure through new share issues as well as raising of new borrowings and repayment of existing borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5 FINANCIAL RISK MANAGEMENT (Continued)

5.3 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

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.

(a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed above.

Recurring fair value measurements

		Fair value measurement using:	
		Level 1	**Total**
	Note	HK$'000	HK$'000
At 31 December 2022			
Financial assets			
Financial assets at FVOCI	20		
– listed equity securities		**1,080,646**	**1,080,646**
– unlisted equity securities		**–**	**–**
Financial assets at FVPL	24		
– listed equity securities		**2,016**	**2,016**
		1,082,662	**1,082,662**
At 31 December 2021			
Financial assets			
Financial assets at FVOCI	20		
– listed equity securities		1,654,730	1,654,730
– unlisted equity securities		–	–
Financial assets at FVPL	24		
– listed equity securities		21,488	21,488
		1,676,218	**1,676,218**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5 FINANCIAL RISK MANAGEMENT (Continued)

5.3 Fair value measurement (Continued)

(a) Fair value hierarchy (Continued)

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the years ended 31 December 2022 and 2021. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(b) Reconciliation of assets measured at fair value based on level 3

The following table presents the changes in level 3 items for the years ended 31 December 2022 and 2021:

	Financial assets at FVOCI – Unlisted equity securities	
	2022	2021
	HK$'000	HK$'000
At 1 January	**–**	–
Total gains recognised in other comprehensive income	**–**	94,441
Disposal	**–**	(94,441)
At 31 December	**–**	–

The total gains recognised in other comprehensive income are presented in gain on disposal of financial assets at FVOCI in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5 FINANCIAL RISK MANAGEMENT (Continued)

5.3 Fair value measurement (Continued)

(c) Disclosure of valuation process, valuation techniques and inputs used

Certain of the financial instruments are measured at fair value for financial reporting purposes. The board of directors of the Company has set up a valuation team headed by the chief financial officer of the Company ("CFO"), to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group may engage independent third party qualified valuers to perform the valuation. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The CFO reports the valuation team's findings to the board of directors of the Company every quarter to explain the cause of fluctuations in fair values.

During the years ended 31 December 2022 and 2021, there were no changes in the valuation techniques used.

5.4 Financial instruments by category

	2022 **HK$'000**	2021 HK$'000
Financial assets		
Financial assets at FVOCI: Equity instruments	**1,080,646**	1,654,730
Financial assets at FVPL:		
Mandatorily measured at FVPL – Held for trading	**2,016**	21,488
Financial assets measured at amortised cost	**228,291**	385,578
	1,310,953	2,061,796
Financial liabilities		
Financial liabilities measured at amortised cost	**209,271**	295,105
Lease liabilities	**318**	957

5.5 Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6 CRITICAL JUDGEMENTS AND ESTIMATES

In applying the Group's accounting policies, which are described in note 4, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

(a) Capitalisation of borrowing costs

As described in note 4.23 to the consolidated financial statements, it is the Group's policy to capitalise borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. Capitalisation of the borrowing costs relating to the construction of the Group's research and development centre in the PRC was suspended in 2020, while the development was delayed due to the COVID-19 and suspension work by the contractors. Capitalisation of borrowing costs was recommenced in 2021, following the resumption of the normal activities and construction work for the asset for its intended use.

For the year ended 31 December 2022, the interest expenses on bank borrowings of HK$9,918,000 (2021: HK$12,615,000) was capitalised into the construction in progress.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(b) Recoverability and estimated impairment of trade receivables and contract assets

The Group uses provision matrix to calculate ECL for the trade receivables and contract assets. The provision rates are based on past-due status of debtors as groupings of various debtors on this basis demonstrate similar loss patterns with shared credit risk characteristics. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and contract assets with significant balances and credit impaired are assessed for ECL individually. The provision of ECL is sensitive to changes in estimates. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2022, the aggregate carrying amount of trade receivables and contract assets was HK$36,762,000 (2021: HK$61,751,000), after a net of allowance for doubtful debts of HK$65,415,000 (2021: HK$67,380,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6 CRITICAL JUDGEMENTS AND ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(c) ***Impairment of property, plant and equipment and right-of-use assets***

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, the higher of value in use and fair value less costs of disposal of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Changing the assumptions and estimates could materially affect the recoverable amounts.

The carrying amount of property, plant and equipment and right-of-use assets as at 31 December 2022 were HK$437,600,000 (2021: HK$449,390,000) and HK$73,608,000 (2021: HK$85,377,000), respectively.

(d) ***Impairment of investment properties***

Investment properties are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing whether (1) an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount through sale, i.e. fair value. The Group appointed an independent professional valuer to assess the fair value of the investment properties. In determining the fair value, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation and inputs used are reflective of the current market conditions.

The carrying amount of investment properties as at 31 December 2022 was HK$115,309,000 (2021: HK$130,355,000).

(e) ***Revenue recognition***

As explained in policy note 4.19, revenue from sales of artificial intelligent coverage system and related products and provision of technical support services based on AI technology is recognised over time. Such revenue and profit recognition on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

HK$40,907,000 (2021: HK$73,924,000) and HK$6,457,000 (2021: HK$17,015,000) of revenue from sales of artificial intelligent coverage system and related products and and provision of technical support services based on AI technology was recognised for the year, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

7 REVENUE AND SEGMENT REPORTING

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

	2022 HK$'000	2021 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
Revenue recognised at a point in time		
– Sales of wearable smart helmets	**5,159**	13,110
– Provision of procurement services	**–**	9,923
Revenue recognised over time		
– Sales of artificial intelligent coverage system and related products	**40,907**	73,924
– Provision of technical support services based on AI technology	**6,457**	17,015
	52,523	113,972

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 2022 and 2021 and the expected timing of recognising revenue as follows:

	2022 HK$'000	2021 HK$'000
Within one year	**14,561**	7,750

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

7 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment information (Continued)

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***	
	2022	2021	**2022**	2021
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**31,305**	83,052	**626,742**	666,533
Hong Kong	**20,404**	26,387	**–**	–
Others	**814**	4,533	**–**	–
	52,523	113,972	**626,742**	666,533

* Non-current assets exclude financial assets at FVOCI.

Information about major customers

Revenues from customers contributing 10% or more of the total revenue of the Group for the years ended 31 December 2022 and 2021:

	2022	2021
	HK$'000	HK$'000
Customer 1	**20,404**	17,002
Customer 2	**11,155**	16,464
Customer 3	**7,174**	13,519
Customer 4	**6,457**	12,641
Customer 5	**N/A#**	11,682

\# The corresponding revenue did not contribute 10% or more of the total revenue of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Note	2022 HK$'000	2021 HK$'000
Other income			
Government grants	(a)	**85**	16,039
Consultancy service income		**172**	191
Dividend income from financial assets at FVOCI		**8,819**	–
Rental income from investment properties		**2,250**	2,119
Sundry income		**276**	2,664
		11,602	21,013
Other (losses)/gains, net			
Exchange (loss)/gain, net		**(4,362)**	8,600
Loss on deregistration of subsidiaries		**(689)**	–
Gain/(loss) on disposal of property, plant and equipment		**483**	(65)
Property, plant and equipment written off		**(1,536)**	–
Fair value (losses)/gains on financial assets at FVPL		**(19,472)**	2,284
Loss on disposal of financial assets at FVPL		**–**	(7,703)
Other payable written back		**5,223**	–
Others		**(2,918)**	609
		(23,271)	3,725

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 2022 and 2021. There are no unfulfilled conditions or contingencies relating to such government grant income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

9 OPERATING LOSS

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

	Note	2022 HK$'000	2021 HK$'000
Employee benefit expenses	11	**31,646**	47,115
Cost of inventories sold	21	**39,236**	65,545
Cost of services		**2,461**	6,697
Amortisation of intangible assets (included in administrative and research and development expenses)	19	**158**	137
Amortisation of right-of-use assets	18	**5,284**	7,965
Auditor's remuneration			
– Current year		**1,300**	1,300
– Under provision in prior years		**422**	6
		1,722	1,306
(Gain)/loss on disposal of property, plant and equipment		**(483)**	65
Property, plant and equipment written off		**1,536**	–
Depreciation of property, plant and equipment	16	**553**	3,023
Depreciation of investment properties	17	**4,922**	4,578
Direct operating expenses of investment properties that generate rental income (excluding depreciation)		**825**	1,096
Lease payments not included in the measurement of lease liabilities		**668**	877
Impairment loss/(reversal of impairment loss) on trade receivables	23(b)	**3,328**	(2,266)
Impairment loss on contract assets	23(b)	**123**	9,484

Cost of inventories sold includes employee benefit expenses of approximately HK$4,523,000 (2021: HK$11,193,000) which are included in the amounts disclosed separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

10 FINANCE INCOME, NET

	2022 HK$'000	2021 HK$'000
Finance income		
Interest income:		
– Short term and time deposits	**2,404**	2,698
Finance costs		
Interest expenses:		
– Lease liabilities	**(66)**	(113)
– Bank borrowings	**(11,541)**	(12,709)
	(11,607)	(12,822)
Amounts capitalised into construction in progress	**11,512**	12,615
Finance costs charged to profit or loss	**(95)**	(207)
Finance income, net	**2,309**	2,491

11 EMPLOYEE BENEFIT EXPENSES

	2022 HK$'000	2021 HK$'000
Employee benefits expense (including directors' emoluments):		
Salaries, wages and other benefits	**27,216**	40,506
Retirement benefits scheme contributions	**3,843**	5,638
Equity-settled share-based payments (note 34)	**587**	971
	31,646	47,115
Represented in		
– Cost of sales	**4,523**	11,193
– Selling and distribution expenses	**7,035**	8,889
– Research and development expenses	**10,038**	13,932
– Administrative expenses	**10,050**	13,101
	31,646	47,115

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

11 EMPLOYEE BENEFIT EXPENSES (Continued)

Defined contribution plans

The Group contributes to defined contribution retirement plans which are available for eligible employees in the PRC and Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities (the "PRC Retirement Schemes"). The Group makes contributions to the PRC Retirement Schemes at the applicable rates based on the amounts stipulated by the local government organisations. Upon retirement, the local government labour and security authorities are responsible for the payment of the retirement benefits to the retired employees. The total costs charged to the consolidated statement of profit or loss of approximately HK$3,826,000 for the year ended 31 December 2022 (2021: HK$5,624,000) represent retirement benefit contributions payable to the PRC Retirement Schemes by the Group.

The Group operates a Mandatory Provident Fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the laws of Hong Kong) for employees employed under the jurisdiction of Hong Kong Employment Ordinance (Chapter 57 of the laws of Hong Kong). The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and the employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. The total costs charged to the consolidated statement of profit or loss of approximately HK$17,000 for the year ended 31 December 2022 (2021: HK$14,000) represent retirement benefit contributions payable to the MPF Scheme by the Group.

During the years ended 31 December 2022 and 2021, the Group had no forfeited contributions under the PRC Retirement Scheme and MPF Scheme and which may be used by the Group to reduce the existing level of contributions. There were also no forfeited contributions available at 31 December 2022 and 2021 under the PRC Retirement Scheme and MPF Scheme which may be used by the Group to reduce the contribution payable in future years.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2021: one) director are reflected in the analysis shown in note 12. The emoluments payable to one (2021: Nil) individual, who is a chief executive of the Company and the remaining three (2021: four) individuals, who are not a director of the Company, during the year were as follows:

	2022 **HK$'000**	2021 HK$'000
Salaries and other allowances	**2,199**	2,668
Discretionary bonus	**1,473**	–
Retirement benefits scheme contributions	**422**	388
Share-based payments	**71**	125
	4,165	3,181

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

11 EMPLOYEE BENEFIT EXPENSE (Continued)

Five highest paid individuals (Continued)

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Number of Individuals	
	2022	2021
Nil to HK$1,000,000	**2**	4
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**1**	–
	4	4

12 BENEFITS AND INTERESTS OF DIRECTORS

Directors' and chief executive's emoluments

The remuneration of each director and chief executive is set out below:

For the year ended 31 December 2022

	Fees HK$'000	Salary and other allowances HK$'000	Discretionary bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors					
Dr. Liu Ruopeng, *Chairman*	–	–	–	–	–
Dr. Zhang Yangyang	–	–	–	–	–
Dr. Luan Lin*	–	1,423	1,114	99	2,636
Dr. Ji Chunlin	–	–	–	–	–
Non-executive Directors					
Mr. Li Chiu Ho	250	–	–	–	250
Independent Non-executive Directors					
Dr. Wong Kai Kit	250	–	–	–	250
Mr. Choi Wing Koon	250	–	–	–	250
Dr. Deng Ke	250	–	–	–	250
	1,000	1,423	1,114	99	3,636

* Dr. Luan Lin was former Chief Executive Officer of the Company resigned as Chief Executive Officer with effect from 5 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

12 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2021

	Fees HK$'000	Salary and other allowances HK$'000	Discretionary bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors					
Dr. Liu Ruopeng, *Chairman*	–	–	–	–	–
Dr. Zhang Yangyang	–	–	–	–	–
Dr. Luan Lin	–	1,651	–	98	1,749
Dr. Ji Chunlin	–	–	–	–	–
Non-executive Directors					
Mr. Li Chiu Ho	250	–	–	–	250
Independent Non-executive Directors					
Dr. Wong Kai Kit	250	–	–	–	250
Mr. Choi Wing Koon	250	–	–	–	250
Dr. Deng Ke	250	–	–	–	250
	1,000	1,651	–	98	2,749

During the year ended 31 December 2022, Dr. Liu Ruopeng, Dr. Zhang Yangyang and Dr. Luan Lin agreed to waive the emoluments payable to them for the year ended 31 December 2022 amounted to HK$928,000 (2021: HK$965,000), HK$871,000 (2021: HK$905,000) and HK$812,000 (2021: 845,000), respectively. Other than Dr. Liu Ruopeng, Dr. Zhang Yangyang and Dr. Luan Lin, neither the chief executive nor any of the other directors waived or agreed to waive any emoluments during the years ended 31 December 2022 and 2021.

No emoluments have been paid by the Group to any of the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2021: Nil).

Save as disclosed in note 35, no other transactions, arrangements and contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the years or at any time during the years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

13 INCOME TAX EXPENSE

	2022 HK$'000	2021 HK$'000
Current income tax		
PRC Corporate Income Tax	–	–

Hong Kong profits tax is calculated at 16.5% (2021: 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% (2021: 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 (2021: 2019 to 2022) according to the applicable CIT Law.

The reconciliation between the income tax expense and the product of loss before tax multiplied by Hong Kong Profits Tax Rate is as follows:

	2022 HK$'000	2021 HK$'000
Loss before tax	(67,912)	(40,608)
Tax at Hong Kong Profits Tax rate of 16.5%	(11,205)	(6,700)
Tax effect of different tax rates of subsidiaries operations in other jurisdictions and region	(1,776)	(1,900)
Expenses not deductible for tax purposes	8,274	6,782
Income not taxable for tax purposes	(4,749)	(5,437)
Tax losses not recognised	9,158	9,679
Tax effect of temporary differences not recognised	1,261	1,460
Utilisation of tax losses previously not recognised	(963)	(3,884)
Income tax expense	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

14 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:

	2022	2021
	HK$'000	HK$'000
Loss for the purpose of basic and diluted loss per share for the year attributable to owners of the Company	**(67,912)**	(40,608)

Number of shares are calculated as follows:

	2022	2021
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**6,156,929**	6,156,929

For the years ended 31 December 2021 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.

15 DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2022, nor has any dividend been proposed since the end of the reporting period (2021: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

16 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	–	9,363	224	17,041	5,356	446,905	478,889
At 1 January 2022	**–**	**9,363**	**224**	**17,041**	**5,356**	**446,905**	**478,889**
Additions	**–**	**–**	**–**	**5**	**–**	**26,419**	**26,424**
Disposals/written off	**–**	**(166)**	**–**	**(8,244)**	**(2,002)**	**–**	**(10,412)**
Currency translation differences	**–**	**(732)**	**(14)**	**(1,110)**	**(652)**	**(35,924)**	**(38,432)**
At 31 December 2022	**–**	**8,465**	**210**	**7,692**	**2,702**	**437,400**	**456,469**
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)
Disposals	–	–	(4)	(212)	(148)	–	(364)
Currency translation differences	–	230	4	376	117	–	727
At 31 December 2021	–	9,124	224	15,044	5,107	–	29,499
At 1 January 2022	**–**	**9,124**	**224**	**15,044**	**5,107**	**–**	**29,499**
Depreciation	**–**	**111**	**–**	**313**	**129**	**–**	**553**
Disposals/written off	**–**	**(166)**	**–**	**(6,707)**	**(1,937)**	**–**	**(8,810)**
Currency translation differences	**–**	**(716)**	**(14)**	**(1,005)**	**(638)**	**–**	**(2,373)**
At 31 December 2022	**–**	**8,353**	**210**	**7,645**	**2,661**	**–**	**18,869**
CARRYING AMOUNTS							
At 31 December 2022	**–**	**112**	**–**	**47**	**41**	**437,400**	**437,600**
At 31 December 2021	–	239	–	1,997	249	446,905	449,390

The construction in progress mainly represents building under construction for research and development purpose and for use as an office. As at 31 December 2022, the construction in progress with a carrying amount of HK$437,400,000 (2021: HK$446,905,000) was pledged for the banking facilities (note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

17 INVESTMENT PROPERTIES

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

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

	Note	**2022** **HK$'000**	2021 HK$'000
COST			
At 1 January		**138,001**	–
Acquired on acquisition of subsidiaries	36	**–**	55,082
Transfer from property, plant and equipment and right-of-use assets		**–**	78,892
Currency translation differences		**(10,864)**	4,027
At 31 December		**127,137**	138,001
ACCUMULATED DEPRECIATION			
At 1 January		**7,646**	–
Charge for the year		**4,922**	4,578
Transfer from property, plant and equipment and right-of-use assets		**–**	2,922
Currency translation differences		**(740)**	146
At 31 December		**11,828**	7,646
CARRYING AMOUNTS			
At 31 December		**115,309**	130,355

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

The market value of the investment properties were HK$132,319,000 (2021: 153,361,000) as at 31 December 2022, based on the valuation performed by an independent professional valuer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

18 RIGHT-OF-USE ASSETS

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

	Leasehold land HK$'000	Leased properties HK$'000	Total HK$'000
At 1 January 2021	149,913	8,000	157,913
Additions	–	809	809
Transfer to investment properties	(67,740)	–	(67,740)
Amortisation for the year	(2,383)	(5,582)	(7,965)
Currency translation differences	2,213	147	2,360
At 31 December 2021	82,003	3,374	85,377
At 1 January 2022	**82,003**	**3,374**	**85,377**
Amortisation for the year	**(2,383)**	**(2,901)**	**(5,284)**
Currency translation differences	**(6,300)**	**(185)**	**(6,485)**
At 31 December 2022	**73,320**	**288**	**73,608**

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

	2022 HK$'000	2021 HK$'000
Interest on lease liabilities (included in finance costs)	**66**	113
Amortisation of right-of-use assets	**5,284**	7,965
Expense relating to short-term leases and other leases with lease terms end within 12 months	**668**	877

As at 31 December 2022, the leasehold land of HK$73,320,000 (2021: HK$82,003,000) was pledged against the bank borrowings of the Group (note 30).

Lease liabilities of HK$318,000 (2021: HK$957,000) are recognised with related right-of-use assets of HK$288,000 as at 31 December 2022 (2021: HK$3,374,000).

For both years, the Group leases various offices, quarters and exhibition halls for its operations. Lease contracts are entered into for fixed term of 2 to 5 years (2021: 2 to 5 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

19 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	17,056
At 1 January 2022	**17,056**
Currency translation differences	**(1,343)**
At 31 December 2022	**15,713**
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2021	16,066
Amortisation	137
Currency translation differences	442
At 31 December 2021	16,645
At 1 January 2022	**16,645**
Amortisation	**158**
Currency translation differences	**(1,315)**
At 31 December 2022	**15,488**
CARRYING AMOUNTS	
At 31 December 2022	**225**
At 31 December 2021	411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

20 FINANCIAL ASSETS AT FVOCI

	Note	**2022 HK$'000**	2021 HK$'000
Representing:			
Listed equity securities	(a)	**1,080,646**	1,654,730
Unlisted equity securities	(b)	**–**	–
		1,080,646	1,654,730

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

As at 31 December 2022 and 2021, the carrying amounts of the listed equity securities are denominated in RMB.

Notes:

(a) Listed equity securities
As at 31 December 2022, the Group hold 56,282,860 (2021: 56,282,860) ordinary shares of Kuang-Chi Technologies Co., Ltd. ("KCT"), representing 2.61% (2021: 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 2021, the Group disposed of 15,245,891 ordinary shares of KCT in the open market through a series of transactions, while the proceeds were used for repayment of other borrowings and working capital purpose. The proceeds from disposal were HK$442,970,000.

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

As at 31 December 2022 and 2021, the details of the Group's unlisted equity securities are as follows:

(i) An investment represents 19.14% (2021: 19.14%) equity interest in Gilo Industries Group Limited ("Gilo"), a company incorporated in United Kingdom, with a carrying amount of nil as at 31 December 2022 and 2021. Gilo is principally engaged in the research and development and manufacturing of aviation engines. Since 2019, Gilo had disputes with its key customer over certain sales contract terms and such sales contract was suspended. Further, Gilo was in a voluntary winding up which was initiated by its creditors during the year ended 31 December 2021. All these factors had adverse financial impact on Gilo that resulting a significant fair value loss on the investment in Gilo in prior years, and the fair value is determined as nil at 31 December 2022 and 2021.

(ii) A financial instrument issued by SkyX Limited ("SkyX") that would be settled in a fixed number of shares of SkyX, with a carrying amount of nil as at 31 December 2022 and 2021. SkyX is a company incorporated in BVI and its principal place of business in Canada, and is principally engaged in development and commercialisation of SkyX aircrafts. Since 2019, SkyX encountered difficulties in the research and development activities and failed to achieve the planned progress and milestones were missed. The commercial launch of the products would then be further delayed. In 2020, considering the above circumstances, the Group agreed to surrender its nomination right of the directors of SkyX and not to involve in SkyX's daily operations anymore. Therefore, the Group is no longer able to exercise a significant influence over SkyX through its existing or potential rights, the investment in SkyX was reclassified from interest in associates to financial assets at FVOCI. At the date of reclassification, the fair value of the investment was considered to be zero based on the poor performance of SkyX in the recent years and the unlikeliness of getting improvement. The fair values of these financial instruments remained zero as at 31 December 2022 and 2021.

(iii) During the year ended 31 December 2021, the Group disposed of the investment in Agent Video Intelligence Ltd. at a total consideration of approximately HK$94,441,000, by way of cash and shares, to an independent third party with a fair value gain at same amount that was credited to other comprehensive income for the year. Included in the total consideration, an amount of HK$84,690,000 was settled by listed equity securities, which are classified as financial assets at FVPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

21 INVENTORIES

	2022	2021
	HK$'000	HK$'000
Raw materials	**4,273**	235
Work in process	**2,374**	1,225
Finished goods	**8,210**	7,077
	14,857	8,537

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2022	2021
	HK$'000	HK$'000
Carrying amounts of inventories sold	**39,236**	65,545

22 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

		2022	2021
	Note	**HK$'000**	HK$'000
Arising from performance under made-to-order arrangements		**24,362**	11,433
Less: allowance for ECL	23(b)	**(10,629)**	(11,433)
		13,733	–

As at 31 December 2022 and 2021, none of contract assets that is expected to be recovered after more than one year.

The movements in loss allowance account for contract assets is disclosed in note 23(b). During the years ended 31 December 2022 and 2021, the Group encountered difficulties in recovering from a customer for the work performed. The directors of the Company concluded that impairment losses of HK$10,533,000 (2021: HK$11,433,000) in relation to the contract assets arising from the contract with the customers have been made as at 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

22 CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

(b) Contract liabilities

	2022 **HK$'000**	2021 HK$'000
Receipts in advance of performance – Made-to-order arrangements	**115**	325

Note:

(i) Movements in contract liabilities during the years ended 31 December 2022 and 2021 are as follows:

	2022 **HK$'000**	2021 HK$'000
At 1 January	**325**	4,501
Currency translation differences	**(20)**	57
Increase in contract liabilities as a result of billings in advance	**–**	325
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(190)**	(4,558)
At 31 December	**115**	325

As at 31 December 2022 and 2021, there were no billings in advance of performance and forward sales deposits and instalments received expected to be recognised as income after more than one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

23 TRADE AND OTHER RECEIVABLES

	Note	2022 HK$'000	2021 HK$'000
Trade receivables		**77,815**	117,698
Less: allowance for ECL	(b)	**(54,786)**	(55,947)
Trade receivables, net		**23,029**	61,751
Deposits and other receivables		**24,857**	24,943
Consideration receivable		**22**	15
Prepayments to suppliers		**11,619**	11,197
Other prepayments		**1,783**	2,384
Value-added tax and other taxes recoverable		**16,541**	20,273
		77,851	120,563

The Group did not hold any collateral over these balances (2021: Nil).

Notes:

(a) The following is an aging analysis of trade receivables presented based on the date of revenue recognition and net of allowance as at 31 December 2022 and 2021.

	2022 HK$'000	2021 HK$'000
0 to 90 days	**18,771**	48,966
91 to 180 days	**265**	10,525
181 to 365 days	**331**	–
1 to 2 years	**3,239**	–
2 to 3 years	**423**	2,260
	23,029	61,751

The credit terms generally are within 30 days (2021: 30 to 150 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

23 TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) Movements in loss allowance account for the trade receivables and contract assets during the years ended 31 December 2022 and 2021 are as follows:

	Trade receivables HK$'000	Contract assets HK$'000	Total HK$'000
At 1 January 2021	56,721	11,419	68,140
Impairment loss recognised	–	9,484	9,484
Reversal 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	55,947	11,433	67,380
At 1 January 2022	**55,947**	**11,433**	**67,380**
Impairment loss recognised	**3,328**	**123**	**3,451**
Currency translation differences	**(4,489)**	**(927)**	**(5,416)**
At 31 December 2022	**54,786**	**10,629**	**65,415**

As at 31 December 2022 and 2021, 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$47,586,000 and HK$51,652,000 as at 31 December 2022 and 2021, respectively, which have been fully impaired. Since the end of 2017, Customer A always defaulted its payments, and the Group had been continuously making regular contacts with Customer A for collection of the outstanding amount, but only partial settlement has been received up to the end of 2019. After taking into account of historical default rate in relation to the Cloud business, no repayment schedule being provided by Customer A and the worsen economic situation of the PRC, the directors of the Company are of the view that full impairment loss has been made on its outstanding balances at the end of 2019.

(c) The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2022 HK$'000	2021 HK$'000
USD	**–**	16,113
RMB	**23,029**	45,638
	23,029	61,751

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

24 FINANCIAL ASSETS AT FVPL

	2022 **HK$'000**	2021 HK$'000
Listed equity securities		
Listed outside Hong Kong	**2,016**	21,488

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

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

As at 31 December 2022 and 2021, the financial assets at FVPL are denominated in Sweden Krona.

25 LOANS RECEIVABLES

	2022 **HK$'000**	2021 HK$'000
Loan to a third party	**2,368**	2,368
Less: provision for impairment loss	**(2,368)**	(2,368)
	–	–

As at 31 December 2022 and 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 that the recoverability of the loan is remote. No repayment was made by Beyond Verbal during the years ended 31 December 2022 and 2021.

26 PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

	2022 **HK$'000**	2021 HK$'000
Pledged deposits	**894**	1,679
Time deposits with maturity over three months	**90,248**	–
Cash and cash equivalents	**72,700**	297,190
	163,842	298,869

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

26 PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES (Continued)

As at 31 December 2022, interest rates over bank deposits ranged from 0.00% to 3.98% (2021: 0.00% to 0.35%) per annum.

As at 31 December 2022, the aggregate of pledged bank deposits and bank and cash balances of the Group denominated in RMB amounted to HK$109,065,000 (2021: HK$ 234,471,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

27 TRADE AND OTHER PAYABLES

	2022	2021
	HK$'000	HK$'000
Trade payables	**28,782**	48,841
Accrued employee benefits	**4,921**	7,551
Value-added tax and other taxes payables	**4,658**	11,197
Other payables and accruals	**11,906**	19,754
Accrued construction costs	**17,582**	40,962
	67,849	128,305

Notes:

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

	2022	2021
	HK$'000	HK$'000
0 to 90 days	**15,468**	20,981
91 to 365 days	**602**	18,179
Over 1 year	**12,712**	9,681
	28,782	48,841

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit period.

(b) The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2022	2021
	HK$'000	HK$'000
USD	**–**	15,009
RMB	**28,782**	33,832
	28,782	48,841

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

28 DEFERRED GOVERNMENT GRANTS

As at 31 December 2022, the balance represented deferred government grant of HK$18,603,000 (2021: HK$20,193,000) received from certain local governments. Local governments performed regular assessments on whether the attached conditions are properly fulfilled. Grants that have fulfilled the required conditions are recognised as “other income” in the consolidated statement of profit or loss.

29 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group’s lease liabilities at the end of reporting periods:

	2022		2021	
	Present value of the minimum lease payments HK$’000	**Total minimum lease payments HK$’000**	Present value of the minimum lease payments HK$’000	Total minimum lease payments HK$’000
Within 1 year	**318**	**328**	611	681
After 1 year but within 2 years	**–**	**–**	346	356
	318	**328**	957	1,037
Less: total future interest expenses	**N/A**	**(10)**	N/A	(80)
Present value of lease liabilities	**318**	**318**	957	957
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(318)**		(611)	
Amount due for settlement after 12 months (shown under non-current liabilities)	**–**		346	

As at 31 December 2022 and 2021, the incremental borrowing rates used for determination of the present value of lease payments were ranged from 9% to 12%.

As at 31 December 2022 and 2021, the carrying amounts of the Group’s lease liabilities are mainly denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

30 BANK BORROWINGS

As at 31 December 2022, the bank borrowings are as follows:

	2022			2021		
	Current HK$'000	**Non-current HK$'000**	**Total HK$'000**	Current HK$'000	Non-Current HK$'000	Total HK$'000
Bank borrowings	**22,562**	**118,860**	**141,422**	24,490	153,507	177,997

As at 31 December 2022, the Group's bank borrowings are repayable as follows:

	2022 HK$'000	2021 HK$'000
Within 1 year	**22,562**	24,490
Between 1 and 2 years	**22,562**	24,490
Between 2 and 5 years	**96,298**	94,175
Over 5 years	**–**	34,842
	141,422	177,997

Bank borrowings were obtained for the sole purpose of construction in progress in the past.

As at 31 December 2022, the bank borrowings carried interest at the floating rates from 6.35% to 7.35% (2021: 6.7% to 7.4%) per annum. The bank borrowings were secured by the right-of-use assets and the construction-in-progress amounted to HK$73,320,000 (2021: HK$82,003,000) and HK$437,400,000 (2021: HK$446,905,000), respectively, entire equity interest in one of the Company's subsidiary and were guaranteed by the Company and a company controlled by Dr. Liu Ruopeng.

As at 31 December 2022 and 2021, the carrying amounts of bank borrowings are denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

31 DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior periods:

	Fair value change of financial assets at FVOCI	
	2022	2021
	HK$'000	HK$'000
At 1 January	**204,852**	230,903
(Credited)/charged to other comprehensive income	**(66,572)**	26,823
Directly to equity	**–**	(59,191)
Currency translation differences	**(16,128)**	6,317
At 31 December	**122,152**	204,852

As at 31 December 2022, the Group had unrecognised tax losses of approximately of HK$277,850,000 (2021: HK$471,065,000) available for offsetting against future profits. No deferred tax asset has been recognised for such losses due to the unpredictability of future profit streams. The tax losses in the PRC may be carried forward for 5 years. The tax losses in Hong Kong have no expiry date. Unrecognised tax losses of HK$47,026,000 (2021: HK$33,824,000) have no expiry date, the remaining losses will expire at variable dates up to 2027 (2021: up to 2026).

Deferred tax liabilities in relation to the withholding tax on the unremitted earnings of certain PRC subsidiaries have not been recognised for both of the years ended 31 December 2022 and 2021 and as at 31 December 2022 and 2021 as the Group controls the divided policy of the subsidiaries in the PRC and it has been determined that it is probable that the profits earned by the Group's subsidiaries in the PRC will not be distributed in the foreseeable future.

32 SHARE CAPITAL

	Number of shares	**Equivalent to**
		HK$'000
Ordinary shares		
Authorised:		
Ordinary shares of HK$0.01 each at 1 January 2021 and 31 December 2021 and 2022	7,316,666,668	73,167
Issued and fully paid:		
At 1 January 2021 and 31 December 2021 and 2022	6,156,928,860	61,569

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

33 OTHER RESERVES

	Share premium HK$'000	Financial assets at FVOCI reserve HK$'000	Capital reserve HK$'000 (note a)	Contributed surplus HK$'000 (note b)	Share-based payment reserve HK$'000 (note c)	Exchange translation reserve HK$'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
Changes in fair value of financial assets at FVOCI, 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 FVOCI	–	(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
At 1 January 2022	**2,339,550**	**121,777**	**17,900**	**103,941**	**971**	**14,659**	**2,598,798**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**(162,484)**	**(162,484)**
Changes in fair value of financial assets at FVOCI, net of deferred tax	**–**	**(377,242)**	**–**	**–**	**–**	**–**	**(377,242)**
Other comprehensive income for the year	**–**	**(377,242)**	**–**	**–**	**–**	**(162,484)**	**(539,726)**
Recognition of share-based payments	**–**	**–**	**–**	**–**	**587**	**–**	**587**
At 31 December 2022	**2,339,550**	**(255,465)**	**17,900**	**103,941**	**1,558**	**(147,825)**	**2,059,659**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

34 SHARE OPTIONS

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.

(a) The terms and conditions of the grants are as follows:

On 22 April 2021, a total of 27,000,000 new share options under the Scheme were granted all to employees. The details of these share options are summarised as follows:

Date of grant		Vesting period	Exercise period	Exercise price HK$
22 April 2021	2021A	22 April 2021 to 22 April 2022	22 April 2022 to 21 April 2026	0.229
22 April 2021	2021B	22 April 2021 to 22 April 2023	22 April 2023 to 21 April 2026	0.229
22 April 2021	2021C	22 April 2021 to 22 April 2024	22 April 2024 to 21 April 2026	0.229

If the share options remain unexercised after a period of 5 years from the date of grant, the options expire. Share options are forfeited if the employee leaves the Group.

(b) The number and weighted average exercise price of share options are as follows:

	2022		2021	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	**23,370,000**	**0.229**	–	–
Granted during the year	**–**	**–**	27,000,000	0.229
Forfeited during the year	**(2,850,000)**	**0.229**	(3,630,000)	0.229
Outstanding at the end of the year	**20,520,000**	**0.229**	23,370,000	0.229
Exercisable at the end of the year	**6,771,600**	**0.229**	–	–

During the year end 31 December 2022, no share option was exercised or cancelled (2021: Nil).

The share options outstanding at the end of the year have a weighted average remaining contractual life of 4 years (2021: 5 years) and the exercise prices are HK$0.229 (2021: HK$0.229). In 2021, options were granted on 22 April 2021, the closing price of the shares immediately before the grant date is HK$0.229. The estimated fair value of the options on this date is HK$2,808,000. In 2022, no share option was granted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

34 SHARE OPTIONS (Continued)

(c) Fair value of share options and assumptions

The fair values of the options granted on 22 April 2021 were calculated using the Binomial model. The inputs into the model are as follows:

Weighted average share price (HK$)	**0.229**
Weighted average exercise price (HK$)	**0.229**
Expected volatility (%)	**71**
Expected life (no. of years)	**5**
Risk free rate (%)	**0.602**
Expected dividend yield (%)	**Nil**

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 4 years. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recorded total share-based payment expenses of HK$587,000 (2021: HK$971,000) for the year ended 31 December 2022.

35 RELATED PARTY TRANSACTIONS

(a) Related party balances

Details of the Group's balances with related parties are set out below:

	Note	**2022** **HK$'000**	2021 HK$'000
Trade receivables			
– 佛山順德光啟尖端裝備有限公司 ("Foshan Shunde Guangqi")	(i)	**152**	–
Trade payables			
– 深圳光啟超材料技術有限公司 ("Shenzhen New Beams Technology")	(i)	**–**	10,565

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

35 RELATED PARTY TRANSACTIONS (Continued)

(b) Related party transactions

Name of parties	Nature of transactions	Note	2022 HK$'000	2021 HK$'000
Shenzhen New Beams Technology	Purchases of materials		**77**	1,840
	Purchases of wearable smart helmets		**8,261**	2,857
	Disposal of motor vehicle		**114**	–
深圳光啟智能光子技術有限公司("Shenzhen Guangqi Intelligent")	Purchase of materials	(i)	**203**	796
Kuang-Chi Technologies Co. Ltd ("Kuang-Chi Technologies")	Disposal of motor vehicle	(i)	**137**	–
深圳光啟尖端技術有限責任公司("Guangqi Jianduan Technology")	Disposal of motor vehicle	(i)	**129**	–
Foshan Shunde Guangqi	Sales of artificial intelligent coverage system and related products		**2,097**	–

Notes:

(i) The director and controlling shareholder of the Company, Dr. Liu Ruopeng, is director and shareholder of Kuang-Chi Technologies, while Foshan Shunde Guangqi, Shenzhen New Beams Technology, Shenzhen Guangqi Intelligent and Guangqi Jianduan Technology are subsidiaries of Kuang-Chi Technologies. The above transactions were conducted in the normal course of 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.

(ii) As at 31 December 2022, a company which is controlled by Dr. Liu Ruopeng provided a guarantee to a bank for the Group's banking facilities amounted to HK$319,185,000 (2021: HK$346,460,000), of which HK$141,422,000 (2021: HK$177,997,000) were utilised as at 31 December 2022.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year are as follows:

	2022 HK$'000	2021 HK$'000
Salaries and other short-term benefits	**3,234**	4,604
Discretionary bonus	**2,327**	1,146
Retirement benefit scheme contributions	**306**	293
Share-based payments	**48**	–
	5,915	6,043

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

36 ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

Acquisition of Bloom Gain Limited

On 7 February 2021, the Group entered into a sales and purchase agreement with a vendor pursuant to which the Group agreed to acquire and the vendor agreed to sell the entire equity interest of Bloom Gain Limited ("Bloom Gain") and its subsidiaries at a cash consideration of HK$52,000,000. Bloom Gain and its subsidiaries did not carry out any business and the sole purpose of acquiring the shares of Bloom Gain was to acquire a property held by its subsidiary in Shanghai, the PRC, therefore, the directors of the Company are of the view that the acquisition did not constitute to a business combination and was accounted for an acquisition of assets through acquisition of the subsidiaries. The transaction was completed on 7 February 2021.

(i) The assets acquired and liabilities assumed in the transaction are as follows:

	2021 HK$'000
Investment property	55,082
Other receivables and prepayments	45
Cash and cash equivalents	3
Other payables and accruals	(3,130)
Fair value of net assets acquired	52,000
Consideration transferred:	
Total cash consideration	52,000

(ii) An analysis of the net cash outflow of cash and cash equivalents in respect of acquisition of assets is as follows:

	2021 HK$'000
Cash consideration	(52,000)
Add: Cash and cash equivalents acquired	3
Net cash outflow from acquisition	(51,997)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of loss before tax to cash (used in)/generated from operations

	2022 HK$'000	2021 HK$'000
OPERATING ACTIVITIES		
Loss before tax	**(67,912)**	(40,608)
Adjustments for:		
Depreciation of property, plant and equipment	**553**	3,023
Depreciation of investment properties	**4,922**	4,578
Amortisation of intangible assets	**158**	137
Amortisation of right-of-use assets	**5,284**	7,965
Finance income	**(2,404)**	(2,698)
Dividend income	**(8,819)**	–
(Gain)/loss on disposal of property, plant and equipment	**(483)**	65
Property, plant and equipment written off	**1,536**	–
Other payable write back	**(5,223)**	–
Impairment loss/(reversal of impairment loss) on trade receivables	**3,328**	(2,266)
Impairment loss on contract assets	**123**	9,484
Loss on deregistration of subsidiaries	**689**	–
Finance costs	**95**	207
Share-based payments	**587**	971
Exchange loss/(gain), net	**6,599**	(4,650)
Operating cash flows before working capital changes	**(60,967)**	(23,792)
Changes in inventories	**(6,992)**	7,050
Changes in trade and other receivables	**31,174**	78,437
Changes in contract assets	**(13,856)**	2,092
Changes in trade and other payables	**(46,464)**	(15,221)
Changes in contract liabilities	**(184)**	(4,299)
Changes in deferred government grants	**–**	(2,041)
Changes in financial assets at FVPL	**19,472**	63,202
Cash (used in)/generated from operations	**(77,817)**	105,428

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Reconciliation of liabilities arising from financing activities

	Lease liabilities HK$'000	Bank borrowings HK$'000	Other borrowings HK$'000	Total HK$'000
At 1 January 2021	1,130	180,985	315,854	497,969
Cash flows	(1,121)	(20,647)	(317,020)	(338,788)
Interest expenses	113	94	–	207
Capitalised borrowing costs	–	12,615	–	12,615
Acquisition of leases	809	–	–	809
Currency translation differences	26	4,950	1,166	6,142
At 31 December 2021	957	177,997	–	178,954
At 1 January 2022	**957**	**177,997**	**–**	**178,954**
Cash flows	**(646)**	**(34,755)**	**–**	**(35,401)**
Interest expenses	**66**	**29**	**–**	**95**
Capitalised borrowing costs	**–**	**11,512**	**–**	**11,512**
Currency translation differences	**(59)**	**(13,361)**	**–**	**(13,420)**
At 31 December 2022	**318**	**141,422**	**–**	**141,740**

(c) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the followings:

	2022 HK$'000	2021 HK$'000
Within operating cash flows	**734**	990
Within financing cash flows	**580**	1,008
	1,314	1,998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	Note	2022 HK$'000	2021 HK$'000
ASSETS			
NON-CURRENT ASSETS			
Investments in subsidiaries		**269,901**	269,314
Amounts due from subsidiaries		**799,327**	773,231
Total non-current assets		**1,069,228**	1,042,545
CURRENT ASSETS			
Other receivables and prepayments		**14**	169
Financial assets at FVPL		**2,016**	21,488
Cash and cash equivalents		**40,607**	60,895
Total current assets		**42,637**	82,552
LIABILITIES			
CURRENT LIABILITIES			
Other payables and accruals		**1,933**	1,741
Amount due to a subsidiary		**90,973**	90,823
Total current liabilities		**92,906**	92,564
Net current liabilities		**(50,269)**	(10,012)
Net assets		**1,018,959**	1,032,533
EQUITY			
CAPITAL AND RESERVES			
Share capital	32	**61,569**	61,569
Reserves		**957,390**	970,964
Total equity		**1,018,959**	1,032,533

Approved by the Board of Directors on 30 March 2023 and are signed on its behalf by:

Dr. Liu Ruopeng
DIRECTOR

Dr. Luan Lin
DIRECTOR

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

38 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movement in reserves

	Share premium HK$'000	Contributed surplus HK$'000	Financial assets at FVOCI reserve HK$'000	Accumulated losses HK$'000	Shares-based payment reserve HK$'000	Total HK$'000
At 1 January 2021	2,339,550	103,941	(5,386)	(1,551,107)	–	886,998
Loss and total comprehensive income for the year	–	–	94,441	(11,446)	–	82,995
Transfer upon disposal of financial assets at FVOCI	–	–	(94,441)	94,441	–	–
Recognition of share-based payments	–	–	–	–	971	971
At 31 December 2021	2,339,550	103,941	(5,386)	(1,468,112)	971	970,964
At 1 January 2022	**2,339,550**	**103,941**	**(5,386)**	**(1,468,112)**	**971**	**970,964**
Loss and total comprehensive income for the year	**–**	**–**	**–**	**(14,161)**	**–**	**(14,161)**
Recognition of share-based payments	**–**	**–**	**–**	**–**	**587**	**587**
At 31 December 2022	**2,339,550**	**103,941**	**(5,386)**	**(1,482,273)**	**1,558**	**957,390**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries are disclosed as follows:

The principal subsidiaries of the Group at 31 December 2022 and 2021 are set out below. They have share capital consisting solely of ordinary shares and potential ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group.

Name of subsidiary	Place of incorporation	Principal place of business	Issued and fully paid share/ registered capital	Percentage of nominal value of issued share/registered capital directly held by the Company		Principal activities
				2022	2021	
Direct subsidiaries						
KuangChi Science Holdings Limited	HK	HK	HK$1	**100%**	100%	Provision of administrative and innovative technology business procurement services
Indirect subsidiaries						
* Shenzhen Kuang Chi Space Technology Limited *深圳光啟空間技術有限公司	PRC	PRC	USD50,000,000	**100%**	100%	Provision of in-depth space services and other innovative technology business
* Dongguan Space Technology City Company Limited *東莞空間科技城實業有限公司	PRC	PRC	USD35,000,000	**100%**	100%	Provision of innovative technology business
* Dongguan Advanced Technology Institute *東莞前沿技術研究院	PRC	PRC	RMB10,000,000	**100%**	100%	Provision of innovative technology business
* Shenzhen Kuang-Chi Dream Technology Company Limited *深圳光啟夢想科技有限公司	PRC	PRC	USD70,000,000	**100%**	100%	Provision of in-depth space services and other innovative technology business
# Shenzhen Kuang-Chi Manned Space Technology Company Limited #深圳光啟載人空間技術有限公司	PRC	PRC	RMB40,000,000	**100%**	100%	Provision of in-depth space services and other innovative technology business
*Xian KuangChi Intelligent Technology Limited. *西安光啟智能技術有限公司	PRC	PRC	RMB10,000,000	**100%**	100%	Provision of innovative technology business
*Chengdu KuangChi Space Technology Limited *成都光啟空間科技有限公司	PRC	PRC	RMB1,000,000	**100%**	100%	Provision of innovative technology business
*Yuzheng Trading (Shanghai) Company Limited *裕正貿易(上海)有限公司	PRC	PRC	RMB20,000,000	**100%**	100%	Property holding
*Shun Yao Investment Consulting (Shanghai) Company Limited *順耀投資諮詢(上海)有限公司	PRC	PRC	RMB20,000,000	**100%**	100%	Property holding
*Yaohao Trading (Shanghai) Company Limited *耀浩貿易(上海)有限公司	PRC	PRC	RMB30,000,000	**100%**	100%	Property holding

Note:

None of the subsidiaries had any debt securities outstanding as at the end of the reporting period or at any time during the reporting period.

* A wholly-foreign-owned enterprise established under the PRC law. The English name is for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

40 CONTINGENT LIABILITIES

In June 2021, a claim was lodged against two subsidiaries of the Group, in relation to unpaid contract work amount together with interest for the construction in progress of approximately HK$17,680,000, by an construction subcontractor. The Group intends to contest the claim, and while the final outcome of the proceedings is uncertain, it is the directors' opinion that the ultimate liability after accrued construction costs for the contract work, if any, will not have a material impact on the Group's financial position.

41 COMMITMENTS

Capital commitments outstanding at 31 December 2022 not provided for in the consolidated financial statements are as follows:

	2022	2021
	HK$'000	HK$'000
Contracted for		
Property, plant and equipment	**30,931**	24,265

42 EVENTS AFTER THE REPORTING PERIOD

Subsequent to the year end and up to the date of this report, the Group disposed an aggregate of 5,935,600 KCT Shares (representing approximately 0.27% of the total issued shares of KCT) (the "KCT Disposal in 2023") at the aggregate consideration of approximately RMB107,539,000 (exclusive of transaction costs) in the open market through the trading system of the Shenzhen Stock Exchange in the PRC. The average selling price (exclusive of transaction costs) of the KCT Shares was approximately RMB18.12. The consideration for the KCT Disposal in 2023 represented the market price of the KCT Shares at the time of the KCT Disposal in 2023. The KCT Disposal in 2023 is expected to recognise a fair value gain of approximately RMB6,515,000 (equivalent to HK$7,576,000) in other comprehensive income for the year ending 31 December 2023.

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	Year ended 31 December				
	2018 HK$'000 (Restated)	2019 HK$'000	2020 HK$'000	2021 HK$'000	**2022 HK$'000**
Revenue	158,406	60,822	99,478	113,972	**52,523**
Loss before tax	(429,995)	(293,114)	(77,218)	(40,608)	**(67,912)**
Income tax expense	(3,452)	–	(59)	–	**–**
Loss for the year from continuing operations	(433,447)	(293,114)	(77,277)	(40,608)	**(67,912)**
Loss for the year from discontinued operation	(64,169)	(613)	(2,092)	–	**–**
Loss for the year	(497,616)	(293,727)	(79,369)	(40,608)	**(67,912)**
Attributable to:					
Owners of the Company	(457,609)	(294,436)	(78,348)	(40,608)	**(67,912)**
Non-controlling interest	(40,007)	709	(1,021)	–	**–**
	(497,616)	(293,727)	(79,369)	(40,608)	**(67,912)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2018 HK$'000	2019 HK$'000	2020 HK$'000	2021 HK$'000	**2022 HK$'000**
Total assets	2,148,823	1,842,236	2,843,044	2,769,720	**1,979,687**
Total liabilities	(716,908)	(793,864)	(904,759)	(545,674)	**(362,690)**
	1,431,915	1,048,372	1,938,285	2,224,046	**1,616,997**
Share capital	61,569	61,569	61,569	61,569	**61,569**
Reserves	1,328,482	962,507	1,876,718	2,162,479	**1,555,428**
Equity attributable to owners of the Company	1,390,051	1,024,076	1,938,287	2,224,048	**1,616,997**
Non-controlling interests	41,864	24,296	(2)	(2)	**–**
Total equity	1,431,915	1,048,372	1,938,285	2,224,046	**1,616,997**