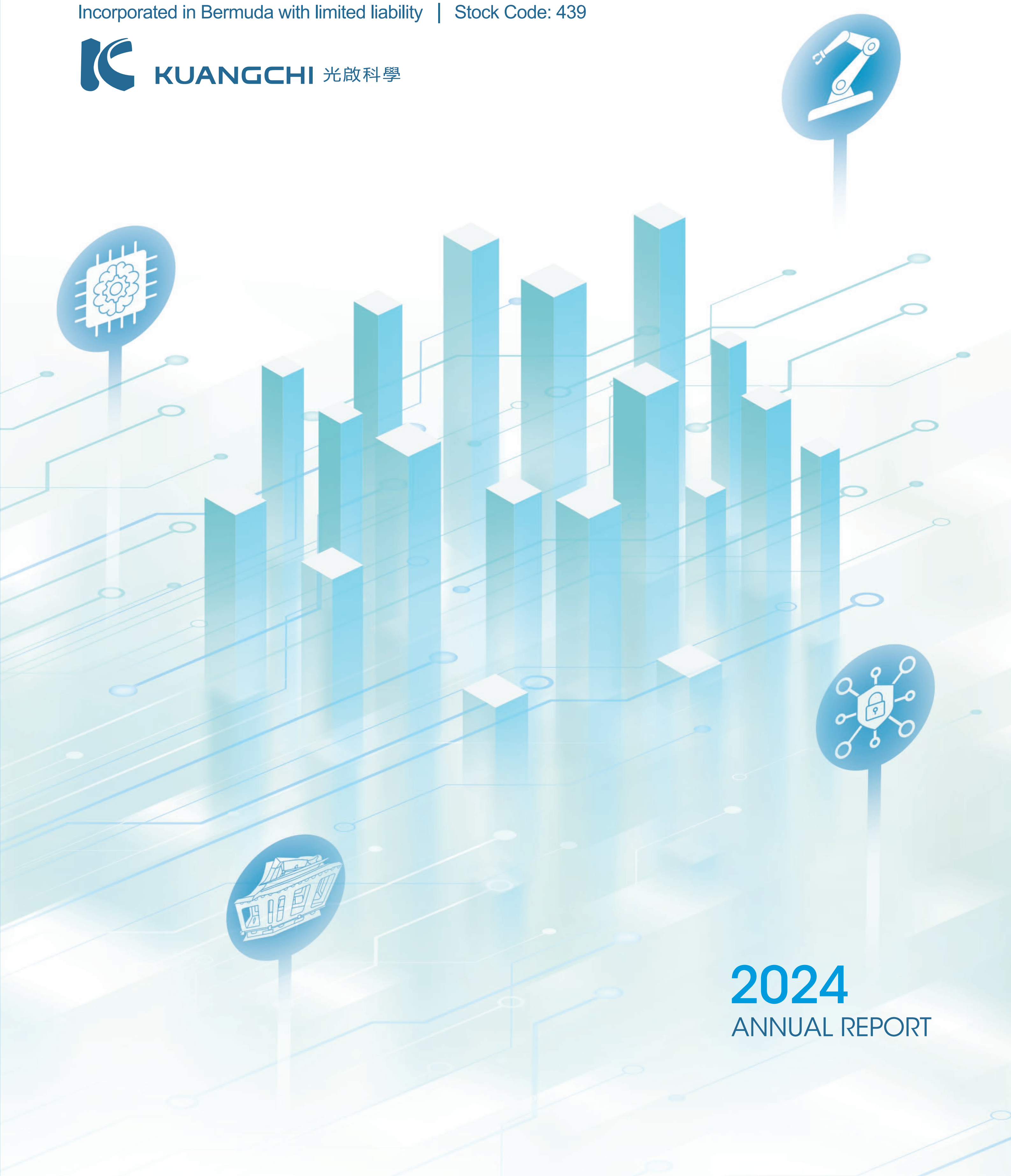
KUANGCHI SCIENCE LIMITED

Incorporated in Bermuda with limited liability | Stock Code: 439

KUANGCHI 光啟科學



2024

ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Dr. Zhang Yangyang *(Chairman)*
Dr. Liu Ruopeng
Dr. Luan Lin
Dr. Ji Chunlin

Non-executive Director
Mr. Li Chiu Ho

Independent Non-executive Directors
Dr. Wong Kai Kit
Mr. Choi Wing Koon
Dr. Wu Zhili

AUDIT COMMITTEE

Mr. Choi Wing Koon *(Chairman)*
Dr. Wong Kai Kit
Dr. Wu Zhili

REMUNERATION COMMITTEE

Dr. Wong Kai Kit *(Chairman)*
Dr. Zhang Yangyang
Dr. Wu Zhili

NOMINATION COMMITTEE

Dr. Zhang Yangyang *(Chairman)*
Dr. Wong Kai Kit
Dr. Wu Zhili

COMPANY SECRETARY

Mr. Cheng Chi Chung Kevin

AUDITOR

RSM Kong Hong
Certified Public Accountants
29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE IN HONG KONG

Unit 1104, 11/F., Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

HEAD OFFICE IN SHENZHEN

301-B077, Building 2
No. 1, Mawu Road
Baoan Community, Yuanshan Street
Longgang District, Shenzhen
PRC
Postal code: 518115

Email: info@kuang-chi.com
Website: www.kuangchiscience.com

Tel: (86) 0755-8632 9078
Fax: (86) 0755 8664 9700

REGISTRARS

Hong Kong
Tricor Investor Services Limited *(with effect from 1 April 2025)*
17/F., Far East Finance Centre
16 Harcourt Road
Hong Kong

Bermuda
Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL BANKERS

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

STOCK CODE

439

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW AND PROSPECTS

KuangChi Science Limited (the "**Company**") together with its subsidiaries (the "**Group**") are mainly engaged in the provision of AI-empowered terminal products and integrated technical services and solutions in various vertical fields ("**AI Business**") as well as the design, production and manufacturing of high-end industrial components ("**High-end Industrial Business**"). For the twelve months ended 31 December 2024 (the "**Year**"), the Group recorded a sale revenue of approximately HK$75.5 million, representing a year-on-year slight decrease of 9.2%, and a net loss of HK$47.4 million. Net loss fluctuated significantly, mainly due to the strategic investment in core research and development capabilities. The Group will continue to empower products to improve product competitiveness and lay the foundation for subsequent profit growth of the Group. In addition, the Group will also accelerate the promotion of comprehensive paperless and AI offices to systematically reduce operating costs and improve management efficiency.

ENHANCE THE EXPANSION AND APPLICATION OF CORE BUSINESS

As of 31 December 2024, the Group continued to deepen market expansion in core business sectors and comprehensively improved product design and iteration capabilities. Through the precise research and development system and smart manufacturing process optimization based on customers' needs, the Group has successfully upgraded the operational efficiency of the High-end Industrial Business segment. Relying on the accumulation of application data in cross-industry customer scenarios, the Group continued to strengthen the technical iteration of AI's underlying architecture and algorithm models, and simultaneously improved the construction of the big data platform. It is committed to providing customers with innovative solutions that are in-depth compliance with business regulatory norms and have full-process embedded value.

The Group has established the High-end Industrial Business as a strategic new growth pole, actively expanded market share and increased market penetration through differentiated competitive strategies. At present, the AI product matrix and its comprehensive solutions have been implemented in multi-dimensional scenarios in public security, industrial production and monitoring and other industries, forming a replicable commercial model. Based on the continuous accumulation of industry data assets, the Group will focus on promoting the in-depth extension of products and services, especially in the smart industrial testing sector, and significantly improving the testing and production synergy efficiency of industrial smart management systems by building a closed loop of technology research and development.

During the reporting period, the Group carried out a new generation of functional upgrades for its smart police helmet products, enabling the continuous delivery of multi-scenario customized solutions, which have been recognized by customer authorities in normal use. On the other hand, it is worth noting that smart firefighting helmets have broken the ice in the market and won the first batch of commercial orders. In view of the value of firefighting helmets in the field of emergency rescue, management has formulated a special expansion plan to accelerate the construction of a competitive foundation for relevant market segments through the inclination of research and development resources and the integration of channels.

With the enhancement of the synergy between core technology platforms and cross-industry solutions and the continuous expansion of the application scenarios of its products and solutions in various sectors, the Group is focusing on the establishment of new quality productivity driven by high-end industrial design and AI algorithms, and the in-depth fusion of AI algorithms and big models with the manufacturing enterprises, so as to facilitate the digital transformation of the industry. The Group will strictly follow the strategic approaches of prioritizing customer value and technology-empowering entities, continue to strengthen the internal governance structure, optimize resource allocation, and at the same time, through precise marketing strategies and after-sales service system upgrades, continue to enhance the competitiveness of the enterprise, and continue to offer high-quality products and outstanding services as well as solutions with higher quality and efficiency for its customers.

MANAGEMENT DISCUSSION AND ANALYSIS

MANPOWER DEVELOPMENT

With regard to manpower development, the Company strengthened the innovative talent training system and development mechanism to enhance the quality of the talent pool. The Group will uphold the key strategy of attracting and nurturing high-calibre and innovative employees, and introduce high-tech talents in AI algorithms, big data, electronic information, industrial design, smart manufacturing engineering, and other related fields from around the world. Internally, we have built an echelon training system and established a multi-channel promotion mechanism to accelerate talent growth. Externally, we have adopted measures such as jointly target training with universities and introducing external expert resources. As of 31 December 2024, the Group had a total of 179 full-time and part-time employees and consultants. The Group provides employees with competitive remuneration packages, including the share option scheme. The Group also provides attractive discretionary bonus payable to those with outstanding performance and contribution to the Group. Through the above mechanism, the Group can achieve dynamic matching of talent pool and business expansion.

FINANCIAL REVIEW

Revenue and operating performance

The Group's revenue decreased from approximately HK$83.1 million for the year ended 31 December 2023 ("FY2023") to approximately HK$75.5 million for the Year, a slightly decrease of approximately HK$7.6 million or 9.2%. The decrease was mainly due to the decline in sales of the Group's artificial intelligence (AI) coverage systems and related products though compensated by the increase in sales of metal components products. Thus, the Company allocated additional resources to enhance its AI coverage systems and strengthen its competitiveness in the business environment.

The net loss of the Group increased by approximately HK$40.1 million from approximately HK$7.3 million for FY2023 to approximately HK$47.4 million for the Year. Compared with the same period last year, the increase in net loss was mainly attributable to the Group's strategic investment in research and development of approximately HK$55.8 million (FY2023:HK$6.7 million).

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$7,000 (FY2023: HK$351,000).

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Company's consolidated financial statements for the year ended 31 December 2024:

In our opinion, except for the effect of the matter described in the Basis of Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2024, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with HKFRS Accounting Standards 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Basis for Qualified Opinion

As detailed in note 40 to the consolidated financial statements, a subsidiary of the Group was involved in a litigation relating to alleged non-performance under a sales contract with a customer. In November 2024, the Dongguan Intermediate People's Court (the "**Intermediate Court**") overturned the first instance judgement in favour of the Group and ordered the subsidiary to repay the amount of RMB103.5 million plus legal costs to the customer and also dismissed the court order awarded in December 2023 that the customer has to settle the outstanding receivable of RMB44.0 million to the subsidiary (the "**Second-Instance Judgement**"). On 17 December 2024, the subsidiary filed an application of final appeal to the High People's Court of Guangdong Province (the "**High Court**"). As at the date of this report, the High Court has acknowledged the application of final appeal but has not yet decided whether to accept the appeal to retrial.

Notwithstanding the Second-Instance Judgement of the Intermediate Court in November 2024 that the Group was requested to pay compensation of RMB103.5 million together with legal costs and accrued interest thereon, the directors of the Company have not made a provision for the legal claim in accordance with the requirements of Hong Kong Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets" ("**HKAS 37**") on the grounds that, based on legal advice obtained by the Group, they consider it probable the High Court will accept the Group's application of appeal and the Second-Instance Judgement will not be upheld on retrial. Accordingly, a contingent liability in respect of the litigation has been disclosed in the consolidated financial statements.

Considering that the case has been tried by two levels of the courts, the result of the Second-Instance Judgement in favour of the customer and the fact that the application of final appeal has not been accepted at the date of this report, there is significant uncertainty as to whether the Group will be able to successfully overturn the decision of the Intermediate Court through the retrial process. Accordingly, we have been unable to obtain sufficient appropriate audit evidence to determine whether adequate provision has been made for the claim arising from the litigation as at 31 December 2024 in accordance with HKAS 37. Any adjustments found to be necessary in respect of the provision for litigation claims would increase the Group's losses for the year ended 31 December 2024 and reduce its net assets and total equity as at 31 December 2024.

THE COMPANY'S VIEW AND POSITION AS TO THE AUDIT QUALIFICATION

The qualified opinion as disclosed in the independent auditors' report for the year ended 31 December 2024 (the "**Audit Qualification**") is relating to uncertainties arising from a litigation on a dispute between the Group and the customer on a sales contract.

A subsidiary of the Group (the "**Relevant Subsidiary**") entered into the sales and purchase contract (the "**Sales Contract**") with a state-owned enterprise ("**Company A**") in December 2015, with a total contract sum of RMB150,000,000, to build intelligent community systems. The Group performed its obligations according to the Sales Contract, and recognized revenue of RMB145,000,000 in year 2015, and received payment from Company A in a total amount of RMB103,500,000 in 2016. As Company A failed to pay the remaining balance in the amount of RMB46,500,000 according to the Sales Contract, the Group filed a claim against Company A with the First People's Court of Dongguan, Guangdong Province (廣東省東莞市第一人民法院) in 2022 to claim for the remaining balance under the Sales Contract. In 2023, the court of first instance ruled in favour of the Group and ordered Company A to pay a compensation in an amount of RMB44,000,000 to the Group (the "**First Instance Judgment**").

MANAGEMENT DISCUSSION AND ANALYSIS

Subsequently, Company A filed an appeal and a counterclaim to rescind the Sales Contract alleging non-performance on the part of the Relevant Subsidiary. In November 2024, the Intermediate People's Court of Dongguan, Guangdong Province (廣東省東莞市中級人民法院) overturned the First Instance Judgment and ordered that the Sales Contract shall be rescinded and the Group shall refund the amount of RMB103,500,000 received plus legal costs (the "**Second Instance Judgment**").

In response to Second Instance Judgement, upon careful assessment and based on professional legal advice obtained from its PRC legal advisers, the Group has submitted a retrial application to the High People's Court of Guangdong Province as the Second Instance Judgement, may have reached its decision based on misapplication of laws and facts and procedural irregularity. The High People's Court of Guangdong Province (廣東省高級人民法院) has completed the filing of the retrial case and is currently conducting retrial review on the case, pending a final ruling.

Considering that the case has been tried by two levels of the courts, the result of the Second Instance Judgement in favour of the customer and the fact that the application of retrial has been filed and accepted by the relevant court, there is still uncertainty as to whether the Group will be able to successfully overturn the decision of the Intermediate Court through the retrial process. Accordingly, the auditors of the Company have been unable to obtain sufficient appropriate audit evidence to determine whether adequate provision has been made for the claim arising from the litigation as at 31 December 2024 in accordance with HKAS 37. Any adjustments found to be necessary in respect of the provision for litigation claims would increase the Group's losses for the year ended 31 December 2024 and reduce its net assets and total equity as at 31 December 2024.

For details, please refer to note 40 to the consolidated financial statements of the Group setting out the basis for qualified opinion.

The information and explanations requested by the auditors of the Company in relation to the Audit Qualification include:

(i) the assessment of the Company's management on whether the Relevant Subsidiary is probable to overturn the Second Instance Judgment at the retrial; and

(ii) another legal opinion from an independent PRC legal adviser on the possible outcome of the retrial and to show that it is not probable the Relevant Subsidiary would not be held responsible for the non-performance.

The management position, view and assessment on the Audit Qualification, and the differences between the management's view and the auditor's view are described as below:

(i) The Group objected the Second Instance Judgement and has lodged an application for a retrial. As at the date of the results announcement of the Company, the court's retrial decision on the obligations of the Group was not available.

(ii) Under Hong Kong Accounting Standard ("**HKAS**") 37 IN2, a provision should be recognised when and only when: (a) an entity has a present obligation arising from past events; (b) it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) reliable estimate can be made of the amount of the obligation. Considering there was a significant difference of the rulings in the First Instance Judgement and the Second Instance Judgement, the Group is seeking a retrial in relation to this case and the Company's management, based on the PRC legal advice, the Second Instance Judgement appears to be based on misapplication of facts and laws by the relevant court. As a result, the Company has disclosed this as a contingent liability under HKAS 37 IN18(b)(i) and IN19. There is no sufficient evidence, in particular, no conclusive view from the PRC legal adviser to support that no provision should be made in relation to this case.

MANAGEMENT DISCUSSION AND ANALYSIS

(iii) The Company's PRC legal advisers in its analysis have raised a number of supportive arguments in favour of the Company's case. However, under the usual PRC legal practice, the PRC legal advisor is not in a position to make a final conclusive view of the outcome of the retrial.

(iv) Having considered the facts of the case and the advice from its PRC legal advisers, the Company's management is of the view that it is not probably that the Group should refund in full the RMB103,000,000. Having considered the facts of the case and the advice from its PRC legal advisers, the management is of the view that it is likely for the Relevant Subsidiary to overturn the Second Instance Judgement at the retrial and therefore it is not probable for the Group to refund the contract sum to Company A and the Group disclosed this as contingent liabilities under HKAS 37. The Company's auditors separately obtained a PRC legal opinion that it is highly uncertain with different possible outcomes of the retrial. On this basis, the Company's auditors considered that the legal opinion from the Company's PRC legal advisers and the management's assessment are not sufficient evidence to assess whether the management's view that the Relevant Subsidiary is likely to overturn the Second Instance Judgement at the retrial and hence it is not probable for the Relevant Subsidiary to refund the contract sum to Company A, is appropriate or not.

Audit Committee's view on the Audit Qualification

The Audit Committee has considered (i) the relevant information provided by the Company's management concerning this audit issue; (ii) the professional legal advice obtained from the Company's PRC legal advisers, concerning this case and the Second Instance Judgment; (iii) the quantum of the potential maximum exposure of this case and the financial position of the Group. Based on the above, the Audit Committee agreed with the management's position and basis of assessment on this matter and is of the view that since the Group has filed a retrial application and it has been accepted by the relevant court in accordance with the applicable laws, when pending the final decision, no provision should be made under the HKAS unless an irrevocable decision has been made by the courts in Mainland China.

Impact of the Audit Qualification on the Group's consolidated financial position

Company's view

Based on professional legal advice obtained from its PRC legal advisors and the fact that the retrial proceeding has been initiated, the management (including the executive directors and senior management) determined that there is no need to make provision for such contingent liability. The Company expects that the decision of the retrial shall be available by the court before 31 December 2025.

The board of directors (including the Audit Committee) considers that once the retrial decision can be released in 2025, the uncertainties concerning this litigation could be clear accordingly and resolve the relevant audit issues.

Auditor's view

As the Group could not provide a concrete timetable as to when the litigation could be finally settled or when the final decision of the courts could be made, the Company's auditors are unable at this stage to confirm whether the Audit Qualification could be removed for the financial year ending 31 December 2025. The auditors consider that the Company could be implemented the action plans and in the event the final decision could be released during the financial year ending 31 December 2025, the relevant audit modifications could be removed accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company's action plan to address the Audit Qualification and the implementation of such plan

The Company has been working closely with its PRC legal advisers on the retrial application and the retrial or appeal actions but the release of the court decisions is not within the control of the Group. Based on its PRC legal advisers' experience and best estimate, the decision of the relevant court should be available before 31 December 2025.

In the next financial year, the Company will continue to work closely with its PRC legal advisers on the retrial. The Company's management is on the view that the audit issues are principally due to the fact that at this stage the retrial decision or a conclusive view of the PRC legal advisers on the outcome of the retrial is not available. Once the retrial decision by the relevant court is received, the Company's management expects that such difference and hence the corresponding audit issues could be resolved.

Having consider the total current assets of the Group as at 31 December 2024, the Company considers that it would have sufficient financial resources to pay the damages to Company A even if the relevant court eventually makes the final decision against the Group.

CAPITAL STRUCTURE

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

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

As at 31 December 2024, the balance of issued ordinary shares was 615,692,886.

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2024, the total shareholders' funds of the Group amounted to approximately HK$2,727,382,000 (2023: HK$1,493,847,000), the total assets of approximately HK$3,201,631,000 (2023: HK$1,828,250,000) and the total liabilities of approximately HK$474,249,000 (2023: HK$334,403,000).

As at 31 December 2024, the Group had bank balances, time deposits and cash of approximately HK$147,259,000 (2023: HK$258,065,000) and the pledged bank deposits of approximately HK$841,000 (2023: HK$868,000). The gearing ratio as of 31 December 2024, is calculated as net debt divided by total capital, defined as the percentage of the total interest-bearing debt, including bank borrowings of approximately HK$90,493,000 (2023: HK$115,499,000), to total capital, was not applicable (2023: Nil) due to net cash.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2024, the Group's total bank borrowings of approximately HK$90,493,000 (2023: HK$115,499,000), of which approximately HK$21,202,000 (2023: HK$21,924,000) and HK$69,291,000 (2023: HK$93,575,000) will be repayable within one year and after one year respectively, carried interest rate at the floating rates from 5.90% to 6.90% (2023: 6.25% to 7.00%) 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.

CAPITAL COMMITMENTS

As of 31 December 2024, the Group had a total capital commitment of HK$50.9 million, contracted for but not yet incurred (as of 31 December 2023: HK$44.1 million). Such capital commitments are expected to be funded by the Group's internal resources and/or borrowings.

CONTINGENT LIABILITIES

Save as disclosed in Note 40 to these financial statements, as at 31 December 2024, the Group had no other contingent liabilities (as at 31 December 2023: nil).

PLEDGE OF ASSETS

As at 31 December 2024, the right-of-use assets amounted to HK$64,714,000 (2023: HK$69,082,000) and construction-in-progress amounted to HK$442,551,000 (2023: HK$443,079,000) were pledged for the Group's bank borrowings. The bank deposits amounted to HK$841,000 as at 31 December 2024 (2023: HK$868,000) were pledged for the construction work and service contracts.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

The Group disposed of a total of 11,589,200 KCT shares ("**KCT Disposal in 2023**") on the open market through a series of transactions during the period from 9 February 2023 to 24 July 2023, at the aggregate consideration of approximately RMB202,625,000. The average selling price of KCT Disposal in 2023 was approximately RMB17.48. After the KCT Disposal in 2023, the net sale proceeds were approximately HK$213,956,000, the Group recognised a fair value gain of approximately HK$5,933,000 for the KCT Disposal in 2023 in other comprehensive income for the FY2023.

As at 31 December 2024, the Group held 44,693,660 ordinary shares of KCT, which represented approximately 2.07% of the KCT issued shares. As at 31 December 2024, the carrying amount of the share of KCT is HK$2,264,752,000 (2023: HK$724,119,000), which represented 70.7% (2023: 39.6%) of the total assets of the Group. For the Year, KCT declared dividend of RMB2.33 per every 10 KCT shares on 10 October 2024 and the Group received approximately RMB10,414,000 (equivalent to HK$11,275,000) on 21 October 2024.

For the Year, the fair value gain, net of tax of HK$1,329.8 million (FY2023: fair value loss, net of tax of HK$97.9 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.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENT AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 31 December 2024 and up to the date of this report.

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

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

As at 31 December 2024, the Group had approximately 179 employees (2023: 128 employees). The Group provides competitive remuneration packages to employees with the share option scheme and the restricted shares award scheme. The Group also provides attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

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 C2 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, the Group has restructured its business planning – Xi'an Guo Qi Future Technology Research Institute has ceased operations and terminated its lease. Additionally, 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 2024.

Reporting Period

This Report demonstrates our sustainability initiatives during the reporting period from 1 January 2024 to 31 December 2024.

Contact Information

The Group welcomes your feedback on this Report for our sustainability initiatives. Please contact us at (852) 3759 0222.

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 C2 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 2024, 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 increase in air pollutants emission in 2024 was mainly due to the increase in vehicle use for business operation. 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**	**2024 Total**	**2023 Total**
Nitrogen oxides (NOx)	kg	1.98	0.77	**2.76**	1.96
Sulfur dioxide (SO2)	kg	0.06	1.07	**1.12**	0.25
Particulate matter (PM)	kg	0.15	2.90	**3.05**	0.27

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 increase in GHG emission and its intensity in 2024 was mainly due to the increase in vehicle use for business operation and the suspension of Xi'an Guo Qi Future Technology Research Institute under the adjustments of business planning, respectively. 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**	**2024 Total**	**2023 Total**
Scope 1[1]	tonnes of CO_2-e	10.61	32.48	**43.09**	10.54
Scope 2[2]	tonnes of CO_2-e	–	124.99	**124.99**	131.30
Total	tonnes of CO_2-e	10.61	157.47	**168.08**	141.85
GHG emission intensity	tonnes of CO_2-e/m^2	N/A[3]	0.28		HK: N/A[3] PRC: 0.20

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 both petrol and diesel 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 increase in energy consumption and its intensity in 2024 was mainly due to the increase in vehicle use for business operation and the suspension of Xi'an Guo Qi Future Technology Research Institute under the adjustments of business planning, respectively. 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	2024 Total	2023 Total
Purchased electricity	MWh	–	161.53	**161.53**	156.80
Petrol	MWh	34.82	46.87	**81.69**	40.05
Diesel	MWh	–	80.00	**80.00**	–
Total	MWh	34.82	208.40	**243.22**	196.85
Energy consumption intensity	MWh/m^2	N/A[4]	0.37		HK: N/A[4] PRC: 0.27

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 2024 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.

[4] The office area of Hong Kong was not available.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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.

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:

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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".

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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.		
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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Climate-related risks description	Financial impact	Steps taken to manage the risks
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.	– 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.
– 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.		– 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.	– 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.
– Enhanced emissions-reporting obligations. We may have to spend much time on fulfilling the report standards to comply the new obligations.		
Technology risk		
– Developing the low carbon energy-saving products and energy saving technologies, the capital investment and R&D expense increase consequently.	– Capital investment in technology development increases.	– Planned to invest in the innovations of energy saving products.
– More green building strategies with low-carbon, energy-saving technologies are adopted by industry peers. Lagging behind may weaken our competitive edges.		– Examined the feasibility and benefits of applying the latest low-carbon and energy-saving technologies into our operation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Climate-related risks description	Financial impact	Steps taken to manage the risks
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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 2024, the Group was not subject (2023: nil) 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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	2024	2023
By gender		
• Male	**92%**	76%
• Female	**8%**	24%
By age group		
• Age 30 or below	**60%**	49%
• Age 31-40	**31%**	41%
• Age 41-50	**7%**	7%
• Age 51 or above	**2%**	3%
By geographical region		
• PRC	**99%**	99%
• Hong Kong	**1%**	1%
By employment category		
• Senior management	**1%**	2%
• Middle management	**3%**	5%
• General	**87%**	83%
• Contract/short term staff	**9%**	10%
By employment mode		
• 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	2024	2023
By gender		
• Male	**56%**	20%
• Female	**23%**	5%
By age group		
• Age 30 or below	**54%**	18%
• Age 31-40	**57%**	73%
• Age 41-50	**27%**	33%
• Age 51 or above	**33%**	25%
By geographical region		
• PRC	**53%**	47%
• Hong Kong	**–**	–
• Overall	**53%**	46%

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 (Cap. 509) 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 (2023: nil) 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 (2023: nil, 2022: nil) and lost day due to work injury (2023: nil, 2022: nil) in our business operation. There was no work-related fatality case (2023: nil, 2022: 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Percentage of employees received training	2024	2023
By gender		
• Male	**100%**	100%
• Female	**100%**	100%
By employment category		
• Senior management	**100%**	100%
• Middle management	**100%**	100%
• General	**100%**	100%
• Contract/short term	**100%**	100%
Overall	**100%**	100%

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

Composition of employees received training	2024	2023
By gender		
• Male	**92%**	91%
• Female	**8%**	9%
By employment category		
• Senior management	**1%**	2%
• Middle management	**3%**	5%
• General	**87%**	83%
• Contract/short term	**9%**	10%

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

Average training hours received per employee	2024	2023
By gender		
• Male	**2.4**	4.1
• Female	**1.1**	0.5
By employment category		
• Senior management	**3.0**	10.0
• Middle management	**2.0**	5.8
• General	**2.4**	4.0
Overall	**2.3**	3.7

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 (2023: nil) 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**	
	2024	**2023**
PRC	**507**	314

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 2024, the Group was not subject (2023: nil) to any punishment by the government and was not involved in any lawsuit relating to product responsibility.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 (2023: nil), and no products sold or shipped were subjected (2023: nil) 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 (2023: nil) to any punishment by the government and was not involved in any lawsuit related bribery, extortion, fraud and money laundering.

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	2024	2023
Number of employees received training		
• Board of directors	**5**	5
• Senior management	**2**	2
• Middle management	**5**	4
• General staff	**46**	26
Total employees	**58**	37
Number of training hours		
• Board of directors	**50**	50
• Senior management	**20**	8
• Middle management	**50**	12
• General staff	**460**	52
Total training hours	**580**	122

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. 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

Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)		Section	Page
A. Environmental			
A1: Emissions			
General Disclosure		"Environmental Aspects"	16
KPI A1.1	The types of emissions and respective emissions data	"Emissions - Air Pollutants Emission"	17
KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity	"Emissions - Greenhouse Gas Emission"	17
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity	No concluded cases regarding hazardous waste were noted during the reporting period	–
KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity	No concluded cases regarding hazardous waste were noted during the reporting period	–
KPI A1.5	Description of measures to mitigate emissions and results achieved	"Emissions - Air Pollutants Emission"	17
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	"Emissions - Hazardous and Non-hazardous Wastes"	18
A2: Use of Resources			
General Disclosure		"Use of Resources"	18
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	"Use of Resources - Energy"	18
KPI A2.2	Water consumption in total and intensity 17	"Use of Resources – Water Consumption"	19
KPI A2.3	Description of energy use efficiency initiatives and results achieved	"Use of Resources - Energy"	18
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	"Use of Resources - Water"	19
KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced	Not applicable to the Group's business	–
A3: The Environment and Natural Resources			
General Disclosure		"The Environment and Natural Resources"	20
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	"The Environment and Natural Resources"	20

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)		Section	Page
A4: Climate Change			
General Disclosure		"Climate Change"	20
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them	"Climate Change"	23
B. Social			
Employment and Labour Practices			
B1: Employment			
General Disclosure		"Employment"	27
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	"Employment"	28
KPI B1.2	Employee turnover rate by gender, age group and geographical region	"Employment"	28
B2: Health and safety			
General Disclosure		"Health and Safety"	29
KPI B2.1	Number and rate of work-related fatalities	No case of work-related fatality was noted.	–
KPI B2.2	Lost days due to work injury	No case of lost days due to work injury was noted.	–
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	"Health and Safety"	29
B3: Development and Training			
General Disclosure		"Development and Training"	29
KPI B3.1	The percentage of employee trained and employee category	"Development and Training"	30
KPI B3.2	The average training hours completed per employee by gender and employee category	"Development and Training"	30
B4: Labour Standards			
General Disclosure		"Labour Standards"	31
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	"Labour Standards"	31
KPI B4.2	Description of steps taken to eliminate such practices when discovered	"Labour Standards"	31

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)		Section	Page
Operating Practices			
B5: Supply Chain Management			
General Disclosure		"Supply Chain Management"	31
KPI B5.1	Number of suppliers by geographical region	"Supply Chain Management"	31
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	"Supply Chain Management"	31
B6: Product Responsibility			
General Disclosure		"Product Responsibility"	31
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"	32
KPI B6.3	Description and practices relating to observing and protecting intellectual property rights	"Intellectual Property Protection"	32
KPI B6.4	Description of quality assurance process and recall procedures	"Safety and Quality Management"	32
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	"Customer Data Protection and Privacy"	32
B7: Anti-corruption			
General Disclosure		"Anti-corruption"	32
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"	33
KPI B7.3	Description of anti-corruption training provided to directors and staff	"Anti-corruption"	33
Community			
B8: Community Investment			
General Disclosure		"Community Investment"	33
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	"Community Investment"	33
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	"Community Investment"	33

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Zhang Yangyang ("Dr. Zhang") aged 45, is currently the chairman, executive Director, chairman of nomination committee and member of remuneration committee of the Company. Dr. Zhang joined the Company as an executive Director since August 2014, and also acted as the chief executive officer until May 2019; in addition, Dr. Zhang has been appointed as the chairman of the company and the chairman of the nomination committee since August 2024. He has in-depth knowledge about the Company and will be able to provide unique insights regarding business operations and management to the Board. Dr. Zhang has been the executive vice president of Kuang-Chi Institute of Advanced Technology since 2010. Dr. Zhang was the director of Kuang-Chi Technologies Co., Ltd. (the shares were listed in Shenzhen Stock Exchange Limited, the stock code: 002625.SZ) from April 2017 to August 2024.

Dr. Zhang obtained a doctorate degree in Electrical Engineering from the University of Oxford, the United Kingdom in 2008 and he was a post-doctoral fellow at the University College London in the United Kingdom from 2008 to 2010. During his study for the doctorate degree in Electrical Engineering from the University of Oxford, the United Kingdom, Dr. Zhang won the Leslie H Paddle Award awarded by the Institution of Engineering and Technology (IET). Such award is given to one Ph.D. student each year in the field of engineering and technology, and he is also the first Chinese recipient of the award. In addition, Dr. Zhang obtained a master's degree and a bachelor's degree from the Northeastern University, China in 2004 and 2002, respectively. During which, his research achievements were outstanding and he has participated in many engineering competitions and won many prizes. He obtained his master's degree ahead of schedule and received the Clarendon Fund from the University of Oxford, the United Kingdom and the full scholarship from K.C. Wong Education Foundation in 2004.

Currently, Dr. Zhang was principally engaged in studies in relation to advanced technologies who hosted and participated in national, provincial and municipal landmark projects, including the Chinese National Programs for High Technology Research and Development (863 Program), the State Key Laboratory of Metamaterial Electromagnetic Modulation Technology, Guangdong High-end Electronic Information Project and Outstanding Young Persons of Shenzhen. Dr. Zhang has been vice president of Shenzhen Young Science and Technology Talents Association since 2012 and obtained a collective award of "Guangdong Youth May 4th Medal" in 2011. Dr. Zhang has published many academic papers in international journals and has been granted a number of invention patents by China.

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. Liu Ruopeng ("Dr. Liu"), aged 41, is currently an executive Director of the Company. Dr. Liu was the chairman and chairman of nomination committee of the Company from August 2014 to August 2024. 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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 2024, 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 45, 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 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.

Dr. Ji Chunlin ("Dr. Ji"), aged 44, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Mr. Li Chiu Ho ("Mr. Li"), aged 35, joined the Company in March 2020 and is currently the non-executive Director of the Company. 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 14 years of experience in auditing, finance and accounting. He previously worked as a manager at PricewaterhouseCoopers to provide audit and accounting advisory services to Hong Kong listed companies. Mr. Li was also the chief financial officer and financial controller of certain listed companies, including the Company during the period of 2017-2018. In addition, Mr. Li served as the Managing Director of a consulting company which engages in offering consulting services and providing solutions in respect of the operation and finance of listed companies. Notably, he participated in projects involving resumption and restructuring of listed companies, as well as privatization of listed companies.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Wong Kai Kit ("Dr. Wong"), aged 51, 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 48, 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 20 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Wu Zhili ("Dr. Wu"), aged 44, is currently an independent non-executive Director of the Company and also a member of Audit Committee, Remuneration Committee and Nomination Committee. Dr. Wu joined the Company in May 2023. He graduated from Hong Kong Baptist University in 2002, majoring in computer science and obtained a bachelor's degree. He has been studying in Hong Kong Baptist University thereafter and obtained a master's degree and a doctoral degree in 2004 and 2008, respectively. Dr. Wu engaged in post-doctoral research at Hong Kong Baptist University from 2008 to 2009, while he engaged in post-doctoral research at the University of Leeds in the United Kingdom from 2009 to 2010. Dr. Wu has served as a senior researcher in Ericsson Research Institute (愛立信研究院) and has worked as the chief AI officer and data officer in various companies. Afterwards, since 2017, Dr. Wu founded Shenzhen Yiyuan Intelligent Technology Co., Ltd. (深圳市宜遠智能科技有限公司) ("Yiyuan Intelligent"). Yiyuan Intelligent focuses on the application of AI technology on the product development and expansion in the field of skin image segmentation and is actively expanding the feasibility of implementing AI-assisted dermatosis diagnosis and treatment in hospitals. In addition to serving as visiting professor and external hire lecturer, Dr. Wu has published numerous articles in relation to the artificial intelligence sector, with an aim to contribute to the technology and research of artificial intelligence.

Save as disclosed above, all Directors did not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

SENIOR MANAGEMENT

Dr. Liu Weiwen ("Dr. Liu W"), aged 37, has been appointed as the chief executive officer of the Company on 5 December 2022. Dr. 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.

Save as disclosed above, Dr. Liu W has not previously held any position with the Company and its subsidiaries. He has not held directorships in the last three years preceding 31 December 2024 in public companies the securities of which are listed on any securities market in Hong Kong or overseas, and does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company.

As at 31 December 2024, Dr. Liu W was interested in 120,000 share options of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

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 2024.

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 37 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 2024.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

During the Year, the Group's five largest suppliers and the largest supplier accounted for approximately 57.6% and 27.3% respectively of the Group's total purchases.

During the Year, the Group's five largest customers accounted for approximately 99.0% of the Group's total sales. The largest customer accounted for approximately 96.6% of the Group's total sales.

Save as disclosed in the section headed "Continuing connected transactions" below, one of the five largest customers are KCT and its subsidiaries, 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 2024 are set out in the consolidated financial statements on pages 70 to 151.

No dividend was paid or proposed during the year ended 31 December 2024, nor has any dividend been proposed since the end of the Year (2023: 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 11 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 and share based payment; 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 27.5% (2023: 17.7%) for the year ended 31 December 2024. The gross profit margin for the year ended 31 December 2024 increased mainly due to increase in sales of metal components products with a higher profit margin.

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 (2023: remains stable) for the year ended 31 December 2024.

The level of debt (including lease liabilities and bank borrowings) to equity of the Group was at a healthy level of 0.03 times as at 31 December 2024 (2023: 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 2024 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 2024, 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 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 81.

DISTRIBUTABLE RESERVES

At 31 December 2024, 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 33 to the consolidated financial statements and "Capital Structure" in the section headed "Management Discussion and Analysis" on page 8 of this annual report.

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

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 152.

DIRECTORS' REPORT

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.

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

As at 31 December 2024, there were no treasury shares (as defined in the Listing Rules) held by the Company.

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities (including sale of treasury shares).

SHARES ISSUED

The Company did not issue any shares during the year ended 31 December 2024.

DIRECTORS AND SERVICE CONTRACTS

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

Board of Directors
Executive Directors
Dr. Zhang Yangyang* *(Chairman)*
Dr. Liu Ruopeng*
Dr. Luan Lin
Dr. Ji Chunlin

Non-executive Director
Mr. Li Chiu Ho

Independent Non-executive Directors
Dr. Wong Kai Kit
Mr. Choi Wing Koon
Dr. Wu Zhili

* Note:

Dr. Zhang Yangyang has been appointed as the Chairman of the Board and has been appointed as the chairman of the nomination committee of the Company with effect from 11 August 2024. Dr. Liu Ruopeng has resigned as the Chairman of the Board and has ceased to be the chairman of the nomination committee of the Company with effect from 11 August 2024. Dr. Liu Ruopeng continues to act as an executive Director of the Company.

In accordance with Bye-laws 87(1) of the Company, Dr. Luan Lin, Dr. Ji Chunlin 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 37 to 40.

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 2024 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, Dr. Luan Lin and Dr. Ji Chunlin agreed to waive the emoluments payable to them for the year ended 31 December 2024 amounting to approximately HK$866,000, HK$474,000, HK$758,000 and HK$758,000, respectively. Other than Dr. Liu Ruopeng, Dr. Zhang Yangyang, Dr. Luan Lin and Dr. Ji Chunlin neither the chief executive nor any of the other Directors waived or agreed to waive any emoluments during the year ended 31 December 2024.

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 2024. The Directors confirm that they have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Continuing connected transactions

Master Procurement Agreement

On 9 August 2023, the Company (for itself and on behalf of its subsidiaries), as vendor, and Kuang-Chi Technologies Co., Ltd. 光啟技術股份有限公司("Kuang-Chi Technologies") (for itself and on behalf of its subsidiaries), as purchaser, entered into the Master Procurement Agreement in respect of the procurement of the (i) Integrated Intelligent Systems and (ii) Metal Component Products. Details of the above transaction were disclosed in the circular of the Company dated 12 October 2023.

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

With reference to the poll results announcement dated 30 October 2023, the resolution set out in the notice was duly passed by the Independent Shareholders as an ordinary resolution of the Company by way of poll at the special general meeting.

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 actual transaction amounts during the year under review have not exceeded the Annual Caps of RMB78 million set out under the Master Procurement Agreement.

RSM Hong Kong, the Company's external auditor, 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 to the Board 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.

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.

Further details are set out in note 39 to the consolidated financial statements. Save for the continuing connected transactions as set forth in the paragraph headed "Continuing connected transactions" above, 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 2024.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2024, 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").

Name of Director/Chief executive	Number of shares held: Personal interest	Number of shares held: Corporate interests	Number of underlying shares held Personal interest	Total	Approximate percentage of total issued shares
Dr. Liu Ruopeng ("Dr. Liu")	–	261,850,000 (L) (note 2)	–	261,850,000 (L)	42.53%
Dr. Liu Weiwen ("Dr. Liu W")	–	–	120,000 (L) (note 3)	120,000 (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 261,850,000 shares of the Company directly held by three companies: (1) 60,786,205 shares held by New Horizon Wireless Technology Limited ("New Horizon Wireless"), being a wholly-owned subsidiary of Wireless Connection Innovative Technology Limited, which is owned as to 51% by Shenzhen Dapeng Kuang-Chi Investment Consulting Co., Ltd. and as to 49% by Shenzhen Kuang-Chi Hezhong Technology Limited, of which Dr. Liu is the controlling shareholder of both Shenzhen Kuang-Chi Hezhong Technology Limited and Shenzhen Dapeng Kuang-Chi Investment Consulting Co., Ltd.; (2) 201,013,795 shares held by New Horizon Wireless Communication Limited ("New Horizon Communication"), being a wholly-owned subsidiary of Innovative Power Group Limited, which is wholly owned by Shenzhen Dapeng Kuang-Chi Investment Consulting Co., Ltd., of which Dr. Liu is the controlling shareholder; and (3) 50,000 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 Wireless, New Horizon Communication and Sky Asia respectively within the meaning of Part XV of the SFO.

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

4. As of 31 December 2024, the issued shares of the company were 615,692,886.

Save as disclosed above, as at 31 December 2024, 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 2024, 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	261,850,000 (L) (note 2)	42.53%
New Horizon Wireless	Beneficial owner	60,786,205 (L)	9.87%
Wireless Connection Innovative Technology Limited	Interest of controlled corporation	60,786,205 (L)	9.87%
New Horizon Communication	Beneficial owner	201,013,795 (L)	32.65%
Innovative Power Group Limited	Interest of controlled corporation	201,013,795 (L)	32.65%
深圳光啟合眾科技有限公司 (*Shenzhen Kuang-Chi Hezhong Technology Limited)	Interest of controlled corporation	60,836,205 (L)	9.88%
深圳大鵬光啟投資諮詢有限責任公司 (*Shenzhen Dapeng Kuang-Chi Investment Consulting Co., Ltd.)	Interest of controlled corporation	261,800,000 (L)	42.52%
Central Faith International Ltd.	Beneficial owner and Interest of controlled corporation	97,298,101 (L)	15.80%
World Treasure Global Limited (note 3)	Beneficial owner	61,898,101 (L)	10.05%
Ye Cheng (note 4)	Interest of controlled corporation	34,747,198 (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 (i) New Horizon Wireless; (ii) New Horizon Communication; and (iii) 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 (i) New Horizon Wireless; (ii) New Horizon Communication; and (iii) 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 the substantial shareholders respectively as of 31 December 2024.

5. As of 31 December 2024, the issued shares of the Company were 615,692,886.

Save as disclosed above, as at 31 December 2024, 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.

No share option was available for grant in 2024 as the Share Option Scheme was expired on 31 July 2022. As at 31 December 2024, the total number of shares available for issue upon exercise of all options granted under the Share Option Scheme is, after the Share Consolidation mentioned above, 1,746,000 shares *(the share options adjustments took effect from 31 January 2024, being the date on which the Share Consolidation becoming effective, please refer to the circular of the Company dated 12 January 2024)*, representing approximately 0.28% of the issued shares of the Company as at the date of this report.

DIRECTORS' 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$)[3]	Exercisable period[1]	Closing price immediately prior to date of grant (HK$)[3]	Outstanding as at 1 January 2024	Adjustments due to Share Consolidation[3]	Granted during the year	Exercised during the year	Weighted average closing price immediately prior to date of exercise of options (HK$)	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2024
Employees	22.4.2021	2.290	22.4.2022-21.4.2026 [2]	2.290	18,750,000	(16,875,000)	–	–	N/A	(129,000)	–	1,746,000

(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) The Share Consolidation took effect from 31 January 2024, the above adjustments were made to the exercise price of the outstanding share options and the number of Consolidated Shares falling to be issued upon the exercise of the outstanding Share Options.

(4) 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 2024 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 2024.

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 2024.

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 2024, 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

There is no change in Director's biographical details since the date of the Interim Report 2024 and up to the date of this report, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the shareholders are unsure about the taxation implications of purchasing, holding, 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

There is no material subsequent event undertaken by the Group after 31 December 2024 and up to the date of this report.

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 2024 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 consolidated financial statements for the year ended 31 December 2024 have been audited by RSM Hong Kong. A resolution will be submitted to the 2025 AGM to re-appoint RSM Hong Kong as auditor of the Company.

On behalf of the Board

Dr. Zhang Yangyang
Chairman and Executive Director

Hong Kong, 28 March 2025

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report of the Group for the year ended 31 December 2024.

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 C1 to the Listing Rules (the "CG Code"). During the year under review, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Company's code of conduct, and the Company's compliance with the Code Provision and disclosure in this Corporate Governance Report.

Save as the deviation from the code provision C.5.1 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 two regular meetings of the Board were held. The Board considers that the two 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.

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, 8% (2023: 24%) 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 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

Board Skills Matrix

The following table summarises the combination of skills and experience of the Board:

Experience, skills & attributes	Board	Nomination	Audit	Remuneration
Total Executive Directors	4	1	–	1
Total Non-Executive Directors	1	–	–	–
Total Independent Non-Executive Directors	3	2	3	2
Experience				
Corporate leadership				
Successful experience in CEO and/or other senior corporate leadership	8	3	3	3
Development of AI experience				
Relevant industry (development and manufacturing of AI technology and related innovative products based on a big data analysis platform) experience	6	3	2	2
Other Board level listed experience				
Membership of other listed entities (last 3 yrs)	6	1	1	1
Knowledge and skills				
Finance and capital management	7	2	2	2
Governance				
Risk and Compliance	7	3	3	3
Educational qualifications				
Obtain a doctoral degree in relation to science	6	3	2	3
Gender				
Male	7	3	3	3
Female	1	–	–	–

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

Executive Directors

Dr. Zhang Yangyang
Dr. Liu Ruopeng
Dr. Luan Lin
Dr. Ji Chunlin

Non-executive Director

Mr. Li Chiu Ho

Independent Non-executive Directors

Dr. Wong Kai Kit
Mr. Choi Wing Koon
Dr. Wu Zhili

CORPORATE GOVERNANCE REPORT

The profiles of each Director are set out in the "Biographical Details of Directors and Senior Management" section on pages 37 to 40. 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. Zhang Yangyang 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.

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.

CORPORATE GOVERNANCE REPORT

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.

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 C3 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 2024 to the Company.

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. Wu Zhili 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.

CORPORATE GOVERNANCE REPORT

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 2024, 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 review the remuneration of Dr. Zhang Yangyang, the executive Director who has been appointed as the Chairman on 11 August 2024.

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. Wu Zhili as members. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

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.

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 2024 to review the interim and annual financial results, and pre-audit meeting to confirm the scope of audit work 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.

CORPORATE GOVERNANCE REPORT

The chairman of the Audit Committee, Mr. Choi Wing Koon, possesses appropriate professional qualification in accounting and meets the requirements of Rule 3.21 of the Listing Rules.

Attendance of the members of the Audit Committee at the meetings held during the year ended 31 December 2024 is set out below:

Member	**Expertise**	**Meetings attended/eligible to attend**
Mr. Choi Wing Koon *(Chairman)*	Obtained a bachelor's degree in Business Administration (Accounting) awarded by the Hong Kong University of Science and Technology in 1999. Obtained a master's degree in Business Administration awarded by the University of Hong Kong in 2014. He has over 15 years of working experience in accounting and company secretarial field, and is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants; and served as an independent non-executive director of a listed company in Hong Kong.	3/3
Dr. Wong Kai Kit	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. He was appointed a professor at the Department of Electronic and Electrical Engineering, University College London, United Kingdom in October 2015. He had other teaching and research roles in universities and education institutes.	3/3
Dr. Wu Zhili	Graduated from Hong Kong Baptist University in 2002, majoring in computer science and obtained a bachelor's degree. He has been studying in Hong Kong Baptist University thereafter and obtained a master's degree and a doctoral degree in 2004 and 2008, respectively. He focuses on the application of AI technology on the product development and expansion in the field of skin image segmentation; and he has published numerous articles in relation to the artificial intelligence sector.	3/3

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Nomination Committee comprises one executive Director and two independent non-executive Directors. The Committee is chaired by Dr. Zhang Yangyang (appointed on 11 August 2024), (Dr. Liu Ruopeng resigned on 11 August 2024) with Dr. Wong Kai Kit and Dr. Wu Zhili 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 2024, 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. In addition, the Nomination Committee had passed written resolutions to recommend Dr. Zhang Yangyang, the executive Director, to act as the Chairman of the Company on 11 August 2024.

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 two times during the year ended 31 December 2024, the Board considers that the two 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.

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.

CORPORATE GOVERNANCE REPORT

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 2024 is set out in the table below:

			Meetings attended/Eligible to attend				
	First date of appointment	Period in office as at the date of Annual Report (Years of service)	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Executive Directors							
Dr. Zhang Yangyang	22 Aug 2014	10	2/2	N/A	1/1	N/A	1/2
Dr. Liu Ruopeng	22 Aug 2014	10	2/2	N/A	N/A	1/1	1/2
Dr. Luan Lin	22 Aug 2014	10	2/2	N/A	N/A	N/A	2/2
Dr. Ji Chunlin	1 Feb 2020	5	2/2	N/A	N/A	N/A	1/2
Non-executive Director							
Mr. Li Chiu Ho	23 Mar 2020	5	2/2	N/A	N/A	N/A	2/2
Independent Non-executive Directors							
Dr. Wong Kai Kit	22 Aug 2014	10	2/2	3/3	1/1	1/1	0/2
Mr. Choi Wing Koon	23 Oct 2019	5	2/2	3/3	N/A	N/A	2/2
Dr. Wu Zhili	8 May 2023	2	2/2	3/3	1/1	1/1	2/2

Apart from regular Board meetings, the then 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 2024, 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 HKFRS Accounting 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 2024, 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 70 to 76.

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.

External auditor and auditor's remuneration

For the year ended 31 December 2024, 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	1,450
Non-audit services	20
Total	1,470

CORPORATE GOVERNANCE REPORT

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.

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

During the year ended 31 December 2024, there are no changes in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

RSM

RSM Hong Kong

29th Floor, Lee Garden Two, 28 Yun Ping Road
Causeway Bay, Hong Kong

T +852 2598 5123
F +852 2598 7230

www.rsmhk.com

羅申美會計師事務所

香港銅鑼灣恩平道二十八號
利園二期二十九字樓

電話 +852 2598 5123
傳真 +852 2598 7230

www.rsmhk.com

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

Qualified Opinion

We have audited the consolidated financial statements of KuangChi Science Limited (the "Company") and its subsidiaries (the "Group") set out on pages 77 to 151, which comprise the consolidated statement of financial position as at 31 December 2024, and the consolidated statement of profit or loss, 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 material accounting policy information.

In our opinion, except for the effect of the matter described in the Basis of Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2024, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with HKFRS Accounting Standards 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 Qualified Opinion

As detailed in note 40 to the consolidated financial statements, a subsidiary of the Group was involved in a litigation relating to alleged non-performance under a sales contract with a customer. In November 2024, the Dongguan Intermediate People's Court (the "Intermediate Court") overturned the first instance judgement in favour of the Group and ordered the subsidiary to repay the amount of RMB103.5 million plus legal costs to the customer and also dismissed the court order awarded in December 2023 that the customer has to settle the outstanding receivable of RMB44.0 million to the subsidiary (the "Second-Instance Judgement"). On 17 December 2024, the subsidiary filed an application of final appeal to the High People's Court of Guangdong Province (the "High Court"). As at the date of this report, the High Court has acknowledged the application of final appeal but has not yet decided whether to accept the appeal to retrial.

INDEPENDENT AUDITOR'S REPORT

RSM

Basis for Qualified Opinion (Continued)

Notwithstanding the Second-Instance Judgement of the Intermediate Court in November 2024 that the Group was requested to pay compensation of RMB103.5 million together with legal costs and accrued interest thereon, the directors of the Company have not made a provision for the legal claim in accordance with the requirements of Hong Kong Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets" ("HKAS 37") on the grounds that, based on legal advice obtained by the Group, they consider it probable the High Court will accept the Group's application of appeal and the Second-Instance Judgement will not be upheld on retrial. Accordingly, a contingent liability in respect of the litigation has been disclosed in the consolidated financial statements.

Considering that the case has been tried by two levels of the courts, the result of the Second-Instance Judgement in favour of the customer and the fact that the application of final appeal has not been accepted at the date of this report, there is significant uncertainty as to whether the Group will be able to successfully overturn the decision of the Intermediate Court through the retrial process. Accordingly, we have been unable to obtain sufficient appropriate audit evidence to determine whether adequate provision has been made for the claim arising from the litigation as at 31 December 2024 in accordance with HKAS 37. Any adjustments found to be necessary in respect of the provision for litigation claims would increase the Group's losses for the year ended 31 December 2024 and reduce its net assets and total equity as at 31 December 2024.

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 qualified opinion.

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. In addition to the matter described in the Basis of Qualified Opinion section, we identified the following key audit matters:

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

2. Recoverability of trade receivables and contract assets

INDEPENDENT AUDITOR'S REPORT

RSM

Key Audit Matters (Continued)

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. As at 31 December 2024, the carrying amounts of the Group's property, plant and equipment and right-of-use assets were HK$448,855,000 and HK$64,714,000 respectively, of which HK$442,551,000 and HK$64,714,000 represented the carrying amount of the construction in progress and leasehold land for the building designated for research and development purpose and for use as an office. Given the Group has incurred continuous operating losses, 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 impairment losses on these assets were necessary as at 31 December 2024. 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), 23 and 24 to the consolidated financial statements. As at 31 December 2024, the Group's gross trade receivables and contract assets amounted to HK$77,635,000 and HK$6,743,000, before loss allowance of HK$12,975,000 and HK$166,000, 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 external valuation experts.

INDEPENDENT AUDITOR'S REPORT

RSM

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 HKFRS Accounting Standards 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

RSM

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.

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes 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 Mok Hon Sang.

RSM Hong Kong
Certified Public Accountants

28 March 2025

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2024

	Note	2024 HK$'000	2023 HK$'000
Revenue	7	**75,514**	83,139
Cost of sales		**(54,771)**	(68,463)
Gross profit		**20,743**	14,676
Other income	8	**14,373**	2,754
Other gains and losses, net	8	**10,767**	10,869
Impairment loss on trade receivables	24(b)	**(6,507)**	(5,872)
Reversal of impairment loss/(impairment loss) on contract assets	24(b)	**349**	(530)
Selling and distribution expenses		**(6,078)**	(3,180)
Research and development expenses		**(55,804)**	(6,656)
Administrative expenses		**(31,236)**	(21,646)
Operating loss	9	**(53,393)**	(9,585)
Finance income		**8,561**	2,423
Finance costs		**(153)**	(133)
Finance income, net	10	**8,408**	2,290
Share of losses of an associate		**(353)**	–
Gain on dilution of investment in an associate	20	**994**	–
Loss before tax		**(44,344)**	(7,295)
Income tax expense	13	**(3,083)**	–
Loss for the year attributable to owners of the Company		**(47,427)**	(7,295)
Loss per share			
Basic (HK cents per share)	14	**(7.70)**	(1.18)
Diluted (HK cents per share)	14	**(7.70)**	(1.18)

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 2024

	Note	2024 HK$'000	2023 HK$'000
Loss for the year attributable to owners of the Company		**(47,427)**	(7,295)
Other comprehensive income after tax:			
Items that reclassified and may be reclassified to profit or loss:			
Release of other reserves upon deregistration of a subsidiary	35(a)	**(2,618)**	(715)
Exchange differences on translation of foreign operations		**(45,997)**	(43,123)
Share of other comprehensive income of an associate		**(237)**	–
		(48,852)	(43,838)
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		**1,564,479**	(113,432)
Less: Deferred tax		**(234,672)**	15,572
		1,329,807	(97,860)
Other comprehensive income, net of tax		**1,280,955**	(141,698)
Total comprehensive income for the year attributable to owners of the Company		**1,233,528**	(148,993)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2024

	Note	**2024 HK$'000**	2023 HK$'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	16	**448,855**	443,124
Investment properties	17	**104,048**	61,809
Right-of-use assets	18	**64,714**	69,082
Intangible assets	19	**3**	69
Investment in an associate	20	**48,332**	–
Financial assets at FVOCI	21	**2,264,752**	724,119
Other non-current assets	24	**–**	79,672
Total non-current assets		**2,930,704**	1,377,875
CURRENT ASSETS			
Inventories	22	**16,692**	12,667
Contract assets	23	**6,577**	21,398
Trade and other receivables	24	**94,257**	106,305
Financial assets at fair value through profit or loss ("FVPL")	25	**5,301**	5,481
Loans receivables	26	**–**	–
Pledged bank deposits	27	**841**	868
Bank and cash balances	27	**147,259**	258,065
		270,927	404,784
Asset classified as held for sale	28	**–**	45,591
Total current assets		**270,927**	450,375
Total assets		**3,201,631**	1,828,250

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2024

	Note	2024 HK$'000	2023 HK$'000
EQUITY			
Share capital	33	**61,569**	61,569
Other reserves		**3,380,055**	2,099,093
Accumulated losses		**(714,242)**	(666,815)
Total equity		**2,727,382**	1,493,847
LIABILITIES			
NON-CURRENT LIABILITIES			
Bank borrowings	31	**69,291**	93,575
Deferred tax liabilities	32	**309,905**	77,795
Total non-current liabilities		**379,196**	171,370
CURRENT LIABILITIES			
Trade and other payables	29	**66,928**	121,827
Contract liabilities	23	**42**	–
Deferred government grants	30	**6,881**	7,115
Bank borrowings	31	**21,202**	21,924
Current tax payable		**–**	12,167
Total current liabilities		**95,053**	163,033
Total liabilities		**474,249**	334,403
Total equity and liabilities		**3,201,631**	1,828,250

The consolidated financial statements on pages 77 to 151 were approved and authorised for issue by the Board of Directors on 28 March 2025 and were signed on its behalf:

Dr. Zhang Yangyang
DIRECTOR

Dr. Ji Chunlin
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 2024

	Attributable to owners of the Company								
	Share capital HK$'000 (note 33)	Share premium HK$'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$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2023	61,569	2,339,550	(255,465)	17,900	103,941	1,558	(147,825)	(504,231)	1,616,997
Loss for the year	–	–	–	–	–	–	–	(7,295)	(7,295)
Other comprehensive income for the year:									
– Currency translation differences	–	–	–	–	–	–	(43,838)	–	(43,838)
– Changes in fair value of financial assets at FVOCI, net of deferred tax	–	–	(97,860)	–	–	–	–	–	(97,860)
Total comprehensive income for the year	–	–	(97,860)	–	–	–	(43,838)	(7,295)	(148,993)
Transfer upon disposal of financial assets at FVOCI	–	–	180,781	–	–	–	–	(180,781)	–
Release of current and deferred tax relating to financial assets at FVOCI that are credited directly to equity	–	–	–	–	–	–	–	25,492	25,492
Recognition of share-based payments	–	–	–	–	–	351	–	–	351
At 31 December 2023	61,569	2,339,550	(172,544)	17,900	103,941	1,909	(191,663)	(666,815)	1,493,847
At 1 January 2024	**61,569**	**2,339,550**	**(172,544)**	**17,900**	**103,941**	**1,909**	**(191,663)**	**(666,815)**	**1,493,847**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(47,427)**	**(47,427)**
Other comprehensive income for the year:									
– Currency translation differences	**–**	**–**	**–**	**–**	**–**	**–**	**(48,852)**	**–**	**(48,852)**
– Changes in fair value of financial assets at FVOCI, net of deferred tax	**–**	**–**	**1,329,807**	**–**	**–**	**–**	**–**	**–**	**1,329,807**
Total comprehensive income for the year	**–**	**–**	**1,329,807**	**–**	**–**	**–**	**(48,852)**	**(47,427)**	**1,233,528**
Recognition of share-based payments	**–**	**–**	**–**	**–**	**–**	**7**	**–**	**–**	**7**
At 31 December 2024	**61,569**	**2,339,550**	**1,157,263**	**17,900**	**103,941**	**1,916**	**(240,515)**	**(714,242)**	**2,727,382**

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.

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 2024

	2024 HK$'000	2023 HK$'000
Cash flow from operating activities		
Loss before tax	**(44,344)**	(7,295)
Adjustments for:		
Depreciation of property, plant and equipment	**70**	45
Depreciation of investment properties	**4,641**	4,679
Amortisation of intangible assets	**65**	150
Amortisation of right-of-use assets	**2,138**	2,461
Finance income	**(8,561)**	(2,423)
Dividend income	**(11,275)**	–
Gain on disposal of property, plant and equipment	**–**	(1,344)
Gain on disposal of an investment property	**(13,168)**	–
Property, plant and equipment written off	**14**	104
Other receivables written off	**–**	1,256
Trade and other payables written back	**–**	(1,701)
Impairment loss on trade receivables	**6,507**	5,872
(Reversal of impairment loss)/impairment loss on contract assets	**(349)**	530
Gain on deregistration of a subsidiary	**(2,618)**	(11,749)
Inventories written-off	**1,116**	–
Finance costs	**153**	133
Share-based payments	**7**	351
Share of losses of an associate	**353**	–
Gain on dilution of investment in an associate	**(994)**	–
Exchange loss, net	**773**	1,582
Operating cash flows before working capital changes	**(65,472)**	(7,349)
Changes in inventories	**(5,653)**	1,782
Changes in trade and other receivables	**1,797**	(57,520)
Changes in contract assets	**14,762**	(8,638)
Changes in trade and other payables	**(23,228)**	27,770
Changes in contract liabilities	**43**	(112)
Changes in financial assets at FVPL	**–**	605
Cash used in operations	**(77,751)**	(43,462)
Income tax paid	**(15,586)**	–
Interest paid	**(153)**	(133)
Net cash used in operating activities	**(93,490)**	(43,595)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2024

	Note	2024 HK$'000	2023 HK$'000
Cash flow from investing activities			
Purchase of investment property		**(18,477)**	–
Deposits paid for acquiring an investment property and an associate		**–**	(60,687)
Purchase of property, plant and equipment		**(13,637)**	(9,082)
Interest paid for construction in progress		**(7,220)**	(9,084)
Deposits received from disposal of an investment property		**–**	30,146
Proceeds from disposal of an investment property		**29,403**	–
Proceeds from disposal of property, plant and equipment		**16**	1,344
Interest received		**8,561**	2,423
Dividend received		**11,275**	–
(Increase)/decrease in pledged deposits		**(2)**	1
Decrease/(increase) in time deposits with maturity over three months		**152,738**	(121,810)
Proceeds from disposal of financial assets at FVPL		**–**	1,411
Purchase of financial assets at FVPL		**–**	(5,517)
Proceeds from disposal of financial assets at FVOCI		**–**	213,956
Net cash generated from investing activities		**162,657**	43,101
Cash flow from financing activities			
Repayment of bank borrowings		**(21,654)**	(22,068)
Repayments of principal portion of lease payments		**–**	(311)
Net cash used in financing activities		**(21,654)**	(22,379)
Net increase/(decrease) in cash and cash equivalents		**47,513**	(22,873)
Cash and cash equivalents at the beginning of the year		**49,099**	72,700
Effect of exchange rate changes on cash and cash equivalents		**(2,358)**	(728)
Cash and cash equivalents at the end of the year	27	**94,254**	49,099

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 2024

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 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 Communication Limited which is incorporated in the British Virgin Islands (the "BVI"). Its ultimate holding company is 深圳大鵬光啟投資諮詢有限責任公司 which was established in the People's Republic of China (the "PRC"). Its ultimate controlling party is Dr. Liu Ruopeng, who is also an executive director of the Company.

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 all applicable HKFRS Accounting Standards, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). HKFRS Accounting Standards comprise Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS"), and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Companies Ordinance (Cap. 622).

The HKICPA has issued certain new and revised HKFRS Accounting Standards 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$47,427,000 and HK$7,295,000 for the years ended 31 December 2024 and 2023, respectively. In addition, as disclosed in note 40 to the consolidated financial statements, the Group has a contingent liability in respect of ongoing litigation with maximum exposure of RMB103.5 million plus legal costs and interest as at 31 December 2024. 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 and contingent liabilities (if realised) 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 2024

3 ADOPTION OF NEW AND REVISED HKFRS ACCOUNTING STANDARDS

(a) Application of new and revised HKFRS Accounting Standards

The Group has applied the following amendments to standards and interpretation issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2024 for the preparation of the consolidated financial statements:

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Hong Kong Interpretation 5 ("HK Int 5") (Revised)	Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

Adoption of Amendments to HKAS 1 "Classification of Liabilities as Current or Non-current" and Amendments to HKAS 1 "Non-current Liabilities with Covenants" (collectively the "HKAS 1 Amendments")

As a result of the adoption of the HKAS 1 Amendments, the Group changed its accounting policy for the classification of borrowings as below:

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

Covenants that the Group is required to comply with, on or before the end of the reporting period, are considered in classifying loan arrangements with covenants as current or non-current. Covenants that the Group is required to comply with after the reporting period do not affect the classification."

This new policy did not result in a change in the classification of the Group's borrowings. The Group did not make retrospective adjustments as a result of adopting HKAS 1 Amendments.

Except for the above, other amendments and interpretation listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

3 ADOPTION OF NEW AND REVISED HKFRS ACCOUNTING STANDARDS (Continued)

(b) New and revised HKFRS Accounting Standards in issue but not yet effective

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of new standards and amendments to standards and interpretation, which are not effective for the year ended 31 December 2024 and which have not been adopted in these consolidated financial statements. The Group has not early applied the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 21 and HKFRS 1 – Lack of Exchangeability	1 January 2025
Amendments to HKFRS 9 and HKFRS 7 – Classification and Measurement of Financial Instruments	1 January 2026
Annual Improvements to HKFRS Accounting Standards – Volume 11	1 January 2026
HKFRS 18 – Presentation and Disclosure in Financial Statements	1 January 2027
HKFRS 19 – Subsidiaries without Public Accountability: Disclosures	1 January 2027
Amendments to HK Int 5 – Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2027
Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA

The directors of the Company are in the process of making an assessment of what the impacts of these new standards, amendments to standards and interpretation are 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 except for the following:

HKFRS 18 "Presentation and Disclosure in Financial Statements"

HKFRS 18 will replace HKAS 1 "Presentation of financial statements", introducing new requirements that will help to achieve comparability of the financial performance of similar entities and provide more relevant information and transparency to users. Even though HKFRS 18 will not impact the recognition or measurement of items in the consolidated financial statements, HKFRS 18 introduces significant changes to the presentation of financial statements, with a focus on information about financial performance present in the statement of profit or loss, which will affect how the Group present and disclose financial performance in the financial statements. The key changes introduced in HKFRS 18 relate to (i) the structure of the statement of profit or loss, (ii) required disclosures for management-defined performance measures (which are referred to alternative or non-GAAP performance measures), and (iii) enhanced requirements for aggregation and disaggregation of information.

The directors of the Company are currently assessing the impact of applying HKFRS 18 on the presentation and the disclosures of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION

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 HKFRS Accounting Standards 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 material accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

4.3 Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill which is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (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.

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 determined.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

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:

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

4.7 Leases (Continued)

The Group as a lessee (Continued)

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.

4.8 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

4.9 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.

4.10 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

4.11 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 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

4.12 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.

4.13 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. Cash and cash equivalents are assessed for ECL.

4.14 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the asset's previous carrying amount and fair value less costs to sell.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet.

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 HKFRS Accounting Standards. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

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.

Covenants that the Group is required to comply with, on or before the end of the reporting period, are considered in classifying loan arrangements with covenants as current or non-current. Covenants that the Group is required to comply with after the reporting period do not affect the classification at the reporting date.

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.

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.

(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 when the contract relates to work on the assets under the control of the customer and therefore the Group's activities create or enhance an asset under the customer's control. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

4.19 Revenue and other income (Continued)

(c) Revenue from sales of wearable smart helmets and metal component products

Revenue from sales of wearable smart helmets and metal component products 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) 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.

(e) 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.

(f) 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 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (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 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (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 temporary 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. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences 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 and at the time of transaction does not give rise to equal taxable and deductible temporary differences.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, 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.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

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 cash generating units ("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.

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 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (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 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (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 2024

4 MATERIAL ACCOUNTING POLICY INFORMATION (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 or those that indicate the going concern assumption is not appropriate 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 2024

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 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 Group entities' functional currency are summarised as follows:

	2024 **HK$'000**	2023 HK$'000
Denominated in USD		
Assets	**43,083**	48,595
Liabilities	**–**	–

The above financial assets and financial liabilities denominated in USD are mainly attributable from the Group 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 2024

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 2024, a 100 basis points (2023: 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 (2023: 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$679,000 (2023: HK$866,000).

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

	2024		2023	
	HK$'000	**% of total loans**	HK$'000	% of total loans
Variable rate borrowings:				
12 months or less	**21,202**	**23%**	21,924	19%
Over 1–5 years	**69,291**	**77%**	93,575	81%
	90,493	**100%**	115,499	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% (2023: 10%) higher/lower:

- loss after tax for the year ended 31 December 2024 would decrease/increase by HK$451,000 (2023: HK$466,000). 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 2024 would increase/decrease by HK$192,504,000 (2023: HK$61,550,000) 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 2024

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 forward-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 2024 and 2023, 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 2024

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 2024 and 2023 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 2024								
Provision on collective basis								
Expected loss rate	**2.5%**	**2.5%**	**2.5%**	**N/A**	**17.6%**	**52.2%**	**81.4%**	
Gross carrying amount	**6,743**	**10,502**	**37,055**	**–**	**15,019**	**10,633**	**4,426**	**77,635**
Loss allowance	**166**	**262**	**916**	**–**	**2,648**	**5,549**	**3,600**	**12,975**
At 31 December 2023								
Provision on individual basis								
Expected loss rate	100%	N/A	N/A	N/A	N/A	N/A	100%	
Gross carrying amount	10,236	N/A	N/A	N/A	N/A	N/A	53,149	53,149
Loss allowance	10,236	N/A	N/A	N/A	N/A	N/A	53,149	53,149
Provision on collective basis								
Expected loss rate	2.4%	2.4%	2.4%	5.5%	17.1%	50.7%	79.0%	
Gross carrying amount	21,924	5,579	70,314	538	8,360	4,576	524	89,891
Loss allowance	526	133	1,687	29	1,431	2,320	415	6,015

As at 31 December 2024, the Group has concentration at credit risk at 99% (2023: 79%) of the total trade debtors were due from the Group's five largest customers for the year ended 31 December 2024.

During the year, the amounts due from these customers, whose are long overdue, known insolvencies or non-response to collection activities, have been fully written off, therefore no individual credit assessment has been performed as at 31 December 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

5 FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors (Continued)

(c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the participation in supplier finance arrangements with banks and the raising of loans to cover expected cash demands, subject to approval by the Directors of the Company when the borrowing exceed certain predetermined level of authority.

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.

As at 31 December 2024 and 2023, none of the Group's banking facilities are subject to the fulfillments of financial 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.

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	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2024				
Trade and other payables	**66,928**	**–**	**66,928**	**66,928**
Bank borrowings	**26,870**	**77,404**	**104,274**	**90,493**
	93,798	**77,404**	**171,202**	**157,421**
At 31 December 2023				
Trade and other payables	91,681	–	91,681	91,681
Bank borrowings	29,745	105,280	135,025	115,499
	121,426	105,280	226,706	207,180

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

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 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 2024 and 2023 are as follows:

	Note	**2024** **HK$'000**	2023 HK$'000
Bank borrowings	31	**90,493**	115,499
Less: Pledged bank deposits and bank and cash balances	27	**(148,100)**	(258,933)
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 2024

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

5 FINANCIAL RISK MANAGEMENT (Continued)

5.3 Fair value measurement (Continued)

(a) Fair value hierarchy (Continued)

Recurring fair value measurements

		Fair value measurement using:		
		Level 1	**Level 3**	**Total**
	Note	HK$'000	HK$'000	HK$'000
At 31 December 2024				
Financial assets				
Financial assets at FVOCI	21			
– listed equity securities		**2,264,752**	**–**	**2,264,752**
Financial assets at FVPL	25			
– unlisted equity securities		**–**	**5,301**	**5,301**
		2,264,752	**5,301**	**2,270,053**
At 31 December 2023				
Financial assets				
Financial assets at FVOCI	21			
– listed equity securities		724,119	–	724,119
Financial assets at FVPL	25			
– unlisted equity securities		–	5,481	5,481
		724,119	5,481	729,600

During the year ended 31 December 2023, the investment property reclassified as non-current assets held for sale was measured at the lower of carrying amounts and fair value less costs to sell. The fair value measurement on the investment property classified as non-current asset held for sale is non-recurring measurement using level 2. The fair value less estimated cost of sell was measured at approximately HK$60,300,000 by reference to the committed sale consideration, and therefore the investment property was measured at their carrying amounts at HK$45,591,000 as at 31 December 2023. No written-down was required. The disposal was completed in January 2024.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the years ended 31 December 2024 and 2023. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

5 FINANCIAL RISK MANAGEMENT (Continued)

5.3 Fair value measurement (Continued)

(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 2024 and 2023:

	Financial assets at FVPL – unlisted equity securities	
	2024 HK$'000	2023 HK$'000
At 1 January	**5,481**	–
Purchases	**–**	5,517
Currency translation differences	**(180)**	(36)
At 31 December	**5,301**	5,481

(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 executive officer of the Company ("CEO"), 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 CEO 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.

Level 3 fair value measurements

					Fair value	
Description	**Valuation technique**	**Unobservable inputs**	**Range**	**Effect on fair value for increase of inputs**	**2024 HK$'000**	2023 HK$'000
					Assets	
Unlisted equity securities	Market Approach	Buy-back clause quote	RMB5 million	Increase	**5,301**	5,481

During the years ended 31 December 2024 and 2023, there were no changes in the valuation techniques used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

5 FINANCIAL RISK MANAGEMENT (Continued)

5.4 Financial instruments by category

	2024 HK$'000	2023 HK$'000
Financial assets		
Financial assets at FVOCI: Equity instruments	**2,264,752**	724,119
Financial assets at FVPL:		
Mandatorily measured at FVPL	**5,301**	5,481
Financial assets measured at amortised cost	**231,270**	361,882
Financial liabilities		
Financial liabilities measured at amortised cost	**157,421**	207,180

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 2024

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 2024, the interest expenses on bank borrowings of HK$7,220,000 (2023: HK$9,084,000) 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 2024, the aggregate carrying amount of trade receivables and contract assets was HK$71,237,000 (2023: HK$105,274,000), after a net of allowance for doubtful debts of HK$13,141,000 (2023: HK$69,926,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

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 amounts of property, plant and equipment and right-of-use assets as at 31 December 2024 were HK$448,855,000 (2023: HK$443,124,000) and HK$64,714,000 (2023: HK$69,082,000), 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 amounts of investment properties as at 31 December 2024 was HK$104,048,000 (2023: HK$61,809,000).

(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$10,321,000 (2023: HK$56,526,000) and HK$174,000 (2023: HK$633,000) of revenue from sales of artificial intelligent coverage system and related products and provision of technical support services based on AI technology were recognised for the year, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

7 REVENUE AND SEGMENT REPORTING

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

	2024 **HK$'000**	2023 HK$'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	**2,047**	3,287
– Sales of metal components products	**62,972**	22,693
Revenue recognised over time		
– Sales of artificial intelligent coverage system and related products	**10,321**	56,526
– Provision of technical support services based on AI technology	**174**	633
	75,514	83,139

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 2024 and 2023 and the expected timing of recognising revenue as follows:

	2024 **HK$'000**	2023 HK$'000
Within one year	**6,228**	–

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 2024

7 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment information (Continued)

Geographical information

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*	
	2024	2023	**2024**	2023
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**75,514**	83,139	**665,952**	653,756

* Non-current assets exclude financial assets at FVOCI.

Information about major customers

Revenue from customers contributing 10% or more of the total revenue of the Group for the years ended 31 December 2024 and 2023:

	2024	2023
	HK$'000	HK$'000
Customer 1	**73,096**	26,617
Customer 2	**–**	32,577
Customer 3	**–**	19,529

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

8 OTHER INCOME AND OTHER GAINS AND LOSSES, NET

	Note	**2024** **HK$'000**	2023 HK$'000
Other income			
Government grants		**39**	278
Consultancy service income		**1,414**	215
Dividend income from financial assets at FVOCI		**11,275**	–
Rental income from investment properties		**1,963**	2,036
Sundry income		**(318)**	225
		14,373	2,754
Other gains and losses, net			
Exchange loss, net		**(773)**	(1,631)
Gain on deregistration of a subsidiary	35(a)	**2,618**	11,749
Gain on disposal of property, plant and equipment		**–**	1,344
Property, plant and equipment written off		**(14)**	(104)
Gain on disposal of an investment property		**13,168**	–
Other receivables written off		**–**	(1,256)
Fair value losses on financial assets at FVPL		**–**	(605)
Trade and other payables written back		**–**	1,701
Government grants refund		**(4,104)**	–
Others		**(128)**	(329)
		10,767	10,869

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

9 OPERATING LOSS

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

	Note	2024 HK$'000	2023 HK$'000
Employee benefits expense	11	**43,250**	23,589
Cost of inventories sold		**54,143**	67,994
Cost of services		**628**	469
Inventories written-off		**1,116**	–
Amortisation of intangible assets (included in research and development expenses)	19	**65**	150
Amortisation of right-of-use assets	18	**2,138**	2,461
Auditor's remuneration		**1,450**	1,300
Gain on disposal of property, plant and equipment		**–**	(1,344)
Gain on disposal of an investment property		**(13,168)**	–
Property, plant and equipment written off		**14**	104
Depreciation of property, plant and equipment	16	**70**	45
Depreciation of investment properties	17	**4,641**	4,679
Direct operating expenses of investment properties that generate rental income (excluding depreciation)		**764**	639
Lease payments not included in the measurement of lease liabilities		**285**	68
Impairment loss on trade receivables	24(b)	**6,507**	5,872
(Reversal of impairment loss)/impairment loss on contract assets	24(b)	**(349)**	530

Cost of inventories sold includes employee benefit expenses and inventories written off of approximately HK$23,844,000 (2023: HK$9,899,000) and HK$1,116,000 (2023: Nil) which are included in the amounts disclosed separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

10 FINANCE INCOME, NET

	2024 HK$'000	2023 HK$'000
Finance income		
Interest income:		
– Short term and time deposits	**8,561**	2,423
Finance costs		
Interest expenses:		
– Lease liabilities	**–**	(9)
– Bank borrowings	**(7,373)**	(9,208)
	(7,373)	(9,217)
Amounts capitalised into construction in progress	**7,220**	9,084
Finance costs charged to profit or loss	**(153)**	(133)
Finance income, net	**8,408**	2,290

11 EMPLOYEE BENEFITS EXPENSE

	2024 HK$'000	2023 HK$'000
Employee benefits expense (including directors' emoluments):		
Salaries, wages and other benefits	**38,715**	19,800
Retirement benefits scheme contributions	**4,528**	3,438
Equity-settled share-based payments (note 34)	**7**	351
	43,250	23,589
Represented in		
– Cost of sales	**23,844**	9,899
– Selling and distribution expenses	**1,510**	2,065
– Research and development expenses	**8,958**	5,453
– Administrative expenses	**8,938**	6,172
	43,250	23,589

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

11 EMPLOYEE BENEFITS EXPENSE (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$4,511,000 for the year ended 31 December 2024 (2023: HK$3,421,000) 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 (2023: HK$17,000) for the year ended 31 December 2024 represent retirement benefit contributions payable to the MPF Scheme by the Group.

During the years ended 31 December 2024 and 2023, 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 2024 and 2023 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 (2023: nil) director and a chief executive (2023: one) are reflected in the analysis shown in note 12. The emoluments of the remaining three (2023: four) individuals, who are not a director nor chief executive of the Company, during the year were as follows:

	2024 **HK$'000**	2023 HK$'000
Salaries and other allowances	**2,357**	2,398
Retirement benefits scheme contributions	**231**	326
Share-based payments	**–**	23
	2,588	2,747

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

11 EMPLOYEE BENEFITS EXPENSE (Continued)

Five highest paid individuals (Continued)

The number of the highest paid employees who are not the director nor chief executive of the Company whose remuneration fell within the following bands is as follows:

	Number of individuals	
	2024	2023
Nil to HK$1,000,000	**2**	4
HK$1,000,001 to HK$1,500,000	**1**	–
	3	4

12 BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

Directors' and chief executive's emoluments

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

For the year ended 31 December 2024

	Fees HK$'000	**Salary and other allowances HK$'000**	**Retirement benefits scheme contributions HK$'000**	**Equity-settled share-based payments HK$'000**	**Total HK$'000**
Executive Directors					
Dr. Liu Ruopeng (Note (i))	**–**	**–**	**–**	**–**	**–**
Dr. Zhang Yangyang, *Chairman* (Note (i))	**–**	**1,072**	**47**	**–**	**1,119**
Dr. Luan Lin	**–**	**–**	**–**	**–**	**–**
Dr. Ji Chunlin	**–**	**–**	**–**	**–**	**–**
Chief Executive					
Dr. Liu Weiwen	**–**	**780**	**107**	**5**	**892**
Non-executive Director					
Mr. Li Chiu Ho	**250**	**–**	**–**	**–**	**250**
Independent Non-executive Directors					
Dr. Wong Kai Kit	**250**	**–**	**–**	**–**	**250**
Mr. Choi Wing Koon	**250**	**–**	**–**	**–**	**250**
Dr. Wu Zhili (Note (ii))	**250**	**–**	**–**	**–**	**250**
	1,000	**1,852**	**154**	**5**	**3,011**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

12 BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE (Continued)

Directors' and chief executive's emoluments (Continued)

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

For the year ended 31 December 2023

	Fees HK$'000	Salary and other allowances HK$'000	Retirement benefits scheme contributions HK$'000	Equity-settled share-based payments HK$'000	Total HK$'000
Executive Directors					
Dr. Liu Ruopeng, *Chairman* (Note (i))	–	–	–	–	–
Dr. Zhang Yangyang (Note (i))	–	–	–	–	–
Dr. Luan Lin	–	–	–	–	–
Dr. Ji Chunlin	–	–	–	–	–
Chief Executive					
Dr. Liu Weiwen	–	784	104	22	910
Non-executive Director					
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 (Note(ii))	88	–	–	–	88
Dr. Wu Zhili (Note(ii))	162	–	–	–	162
	1,000	784	104	22	1,910

Notes:

(i) Dr. Liu Ruopeng resigned as Chairman of the Board of Director with effect from 11 August 2024; and Dr. Zhang Yangyang was appointed as Chairman of the Board of Director with effect from 11 August 2024.

(ii) Dr. Deng Ke resigned as Independent Non-executive Director with effect from 8 May 2023; and Dr. Wu Zhili was appointed as Independent Non-executive Director with effect from 8 May 2023.

During the year ended 31 December 2024, Dr. Liu Ruopeng, Dr. Zhang Yangyang, Dr. Luan Lin and Dr. Ji Chunlin agreed to waive the emoluments payable to them for the year ended 31 December 2024 amounted to HK$866,000 (2023: HK$883,000), HK$474,000 (2023: HK$828,000), HK$758,000 (2023: HK$772,000), and HK$758,000 (2023: HK$708,000), respectively. Other than Dr. Liu Ruopeng, Dr. Zhang Yangyang, Dr. Luan Lin and Dr. Ji Chunlin, neither the chief executive nor any of the other directors waived or agreed to waive any emoluments during the years ended 31 December 2024 and 2023.

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 (2023: Nil).

Save as disclosed in note 39, 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 2024

13 INCOME TAX EXPENSE

	2024 HK$'000	2023 HK$'000
Current income tax		
PRC Corporate Income Tax	**3,083**	–

Hong Kong profits tax is calculated at 16.5% (2023: 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% (2023: 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 (2023: 15% from 2022 to 2025) 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:

	2024 HK$'000	2023 HK$'000
Loss before tax	**(44,344)**	(7,295)
Tax at Hong Kong Profits Tax rate of 16.5%	**(7,317)**	(1,204)
Tax effect of different tax rates of subsidiaries operations in other jurisdictions and region	**675**	792
Expenses not deductible for tax purposes	**352**	4,661
Income not taxable for tax purposes	**(418)**	(5,838)
Tax effect of research and development tax incentive	**(590)**	(747)
Tax losses not recognised	**17,048**	3,071
Tax effect of temporary differences not recognised	**(547)**	1,246
Utilisation of tax losses previously not recognised	**(5,963)**	(1,893)
Under-provision for current year	**(157)**	(88)
Income tax expense	**3,083**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

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:

	2024 **HK$'000**	2023 HK$'000
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	**(47,427)**	(7,295)

Number of shares is calculated as follows:

	2024 **'000**	2023 '000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**615,693**	615,693

For the years ended 31 December 2024 and 2023, the computation of diluted loss per share does not assume the exercise of the outstanding shares options issued because the exercise price of these options was higher than the average market price of the Company's shares.

The weighted average number of shares for calculating basic and diluted loss per share attributable to owners of the Company for the years ended 31 December 2024 and 2023 is adjusted on the assumption that a share consolidation of every ten existing ordinary shares into one consolidated share have been effective in the prior and current year. For details, refer to note 33.

15 DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2024, nor has any dividend been proposed since the end of the reporting period (2023: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

16 PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2023	8,465	210	7,692	2,702	437,400	456,469
Additions	–	–	–	–	18,166	18,166
Disposals/written off	(3,888)	–	(1,676)	(618)	–	(6,182)
Currency translation differences	(214)	(5)	(207)	(62)	(12,487)	(12,975)
At 31 December 2023	4,363	205	5,809	2,022	443,079	455,478
At 1 January 2024	**4,363**	**205**	**5,809**	**2,022**	**443,079**	**455,478**
Additions	**6,360**	**–**	**133**	**–**	**14,364**	**20,857**
Disposals/written off	**(143)**	**–**	**(186)**	**(18)**	**–**	**(347)**
Currency translation differences	**(273)**	**(5)**	**(190)**	**29**	**(14,892)**	**(15,331)**
At 31 December 2024	**10,307**	**200**	**5,566**	**2,033**	**442,551**	**460,657**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2023	8,353	210	7,645	2,661	–	18,869
Depreciation	14	–	5	26	–	45
Disposals/written off	(3,804)	–	(1,656)	(618)	–	(6,078)
Currency translation differences	(211)	(5)	(205)	(61)	–	(482)
At 31 December 2023	4,352	205	5,789	2,008	–	12,354
At 1 January 2024	**4,352**	**205**	**5,789**	**2,008**	**–**	**12,354**
Depreciation	**49**	**–**	**21**	**–**	**–**	**70**
Disposals/written off	**(136)**	**–**	**(177)**	**(4)**	**–**	**(317)**
Currency translation differences	**(142)**	**(5)**	**(187)**	**29**	**–**	**(305)**
At 31 December 2024	**4,123**	**200**	**5,446**	**2,033**	**–**	**11,802**
CARRYING AMOUNTS						
At 31 December 2024	**6,184**	**–**	**120**	**–**	**442,551**	**448,855**
At 31 December 2023	11	–	20	14	443,079	443,124

The construction in progress (the "**CIP**") mainly represents building under construction for research and development purpose and for use as an office. As at 31 December 2024, the CIP with a carrying amount of HK$442,551,000 (2023: HK$443,079,000) was pledged for the banking facilities (note 31).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2024, as indicated by the continuous operating losses incurred by the Group, the directors of the Company identified impairment indicators related to the CIP and the leasehold land (note 18). Accordingly, an impairment assessment has been performed for the carrying amounts of the CIP and the leasehold land amounting to HK$442,551,000 and HK$64,714,000 respectively. The recoverable amounts of the CIP and the leasehold land was determined at fair value less cost of disposal, by using residual method as assessed by independent qualified professional valuer and approved by the directors of the Company. Based on the result from the impairment assessment, the recoverable amount of the CIP and the leasehold land was higher than their carrying amounts. As a result, no impairment loss was recognised during the year ended 31 December 2024.

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	**2024 HK$'000**	2023 HK$'000
COST			
At 1 January		**72,558**	127,137
Additions		**48,820**	–
Reclassified as held for sale	28	**–**	(50,984)
Currency translation differences		**(2,390)**	(3,595)
At 31 December		**118,988**	72,558
ACCUMULATED DEPRECIATION			
At 1 January		**10,749**	11,828
Charge for the year		**4,641**	4,679
Reclassified as held for sale	28	**–**	(5,393)
Currency translation differences		**(450)**	(365)
At 31 December		**14,940**	10,749
CARRYING AMOUNTS			
At 31 December		**104,048**	61,809

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 was HK$111,544,000 (2023: HK$72,634,000) as at 31 December 2024, based on the valuation performed by an independent professional valuer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

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 2023	73,320	288	73,608
Amortisation for the year	(2,179)	(282)	(2,461)
Currency translation differences	(2,059)	(6)	(2,065)
At 31 December 2023	69,082	–	69,082
At 1 January 2024	**69,082**	**–**	**69,082**
Amortisation for the year	**(2,138)**	**–**	**(2,138)**
Currency translation differences	**(2,230)**	**–**	**(2,230)**
At 31 December 2024	**64,714**	**–**	**64,714**

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

	2024 **HK$'000**	2023 HK$'000
Interest on lease liabilities (included in finance costs)	**–**	9
Amortisation of right-of-use assets	**2,138**	2,461
Expense relating to short-term leases and other leases with lease terms end within 12 months	**285**	68

As at 31 December 2024, the leasehold land of HK$64,714,000 (2023: HK$69,082,000) was pledged against the bank borrowings of the Group (note 31).

For both years, the Group leases various offices, quarters and exhibition halls for its operations. Lease contracts are entered into for fixed term within one year. 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 land. The leasehold land component of these owned construction in progress is presented separately as the payments made can be allocated reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

19 INTANGIBLE ASSETS

	Technical knowhow and patents HK$'000
COST	
At 1 January 2023	15,713
Disposal	(109)
Currency translation differences	(444)
At 31 December 2023	15,160
At 1 January 2024	**15,160**
Currency translation differences	**(499)**
At 31 December 2024	**14,661**
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2023	15,488
Amortisation	150
Disposal	(109)
Currency translation differences	(438)
At 31 December 2023	15,091
At 1 January 2024	**15,091**
Amortisation	**65**
Currency translation differences	**(498)**
At 31 December 2024	**14,658**
CARRYING AMOUNTS	
At 31 December 2024	**3**
At 31 December 2023	69

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

20 INVESTMENT IN AN ASSOCIATE

	2024 HK$'000
Unlisted investment	
Share of net assets	**14,626**
Goodwill	**33,706**
	48,332

Details of the Group's associate at 31 December 2024 are as follows:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
中誠欣信息諮詢(深圳)有限公司 ("Zhong Chengxin")	PRC	HK$14,577,259	29.4%	Provision for software development, data analysis and artificial intelligence solutions

In August 2023, the Group has entered into an agreement with Zhong Chengxin, a company incorporated in the PRC, to allot 30% interests of the enlarged capital of Zhong Chengxin, at a consideration of RMB45.0 million. As of 31 December 2023, the Group had paid the deposit for the subscription of HK$49.3 million in advance. On 30 May 2024, the allotment of the shares in Zhong Chengxin to the Group was completed.

The Group has a right to nominate a director to the board of directors of Zhong Chengxin comprising three members, accordingly, the Group exercises significant influence over Zhong Chengxin.

During the year, an investor, a company incorporated in the PRC, has entered into an agreement with Zhong Chengxin and a wholly-owned subsidiary of the Company, and agreed to allot 2% interests of the enlarged capital of Zhong Chengxin at a consideration of RMB4.0 million. Upon the completion of this allotment, on 27 December 2024, the equity interests in Zhong Chengxin held by the Group was diluted to 29.4%. The increase in share of net assets of HK$994,000 after the issuance of new capital net of dilution impact was recognised as a dilution gain in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

20 INVESTMENT IN AN ASSOCIATE (Continued)

The summarised financial information in respect of the Group's associate that is accounted for using the equity method is set out below:

At 31 December 2024

	HK$'000
Current assets	50,094
Current liabilities	(347)
Net assets	49,747
Group's share of net assets	14,626
Goodwill	33,706
Group's share of carrying amount of interests	48,332

From date of acquisition to 31 December 2024

	HK$'000
Revenue	1,072
Loss for the period	(1,178)
Other comprehensive income	(810)
Total comprehensive income	(1,988)

As at 31 December 2024, the bank and cash balances of the Group' associate in the PRC denominated in Renminbi amounted to HK$46.2 million (2023: Nil). 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.

As at 31 December 2024, the associates did not have any significant commitment or contingent liabilities (2023: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

21 FINANCIAL ASSETS AT FVOCI

	Note	2024 HK$'000	2023 HK$'000
Representing:			
Listed equity securities	(a)	**2,264,752**	724,119
Unlisted equity securities	(b)	**–**	–
		2,264,752	724,119

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

As at 31 December 2024 and 2023, the carrying amounts of the listed equity securities are all denominated in RMB.

Notes:

(a) Listed equity securities

As at 31 December 2024, the Group hold 44,693,660 (2023: 44,693,660) ordinary shares of Kuang-Chi Technologies Co., Ltd. ("KCT"), representing 2.07% (2023: 2.07%) of the issued ordinary shares of KCT ("KCT Shares"). Dr. Liu Ruopeng is the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology Limited holds more than 5% shareholding of KCT. KCT is a company listed on the Shenzhen Stock Exchange. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in financial assets at FVOCI as they believe that recognising short-term fluctuations in these investments in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

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

(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 2024 and 2023, the Group had unlisted equity securities of SkyX Limited ("SkyX"). 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. The fair values of these financial instruments remained zero as at 31 December 2023 and 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

22 INVENTORIES

	2024 **HK$'000**	2023 HK$'000
Raw materials	**7,184**	5,263
Work in progress	**5,096**	3,418
Finished goods	**4,412**	3,986
	16,692	12,667

23 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	Note	**2024** **HK$'000**	2023 HK$'000
Arising from performance under artificial intelligent coverage system contracts		**6,743**	32,160
Less: allowance for ECL	24(b)	**(166)**	(10,762)
		6,577	21,398

As at 31 December 2024 and 2023, none of contract assets that is expected to be recovered after more than one year.

During the year, the Group encountered difficulties in recovering from a customer for the work performed, and write off the contract assets arising from the contract with this customer which has been fully impaired in prior years, that resulting a significant decrease in allowance for ECL accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

23 CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

(b) Contract liabilities

	2024 HK$'000	2023 HK$'000
Receipts in advance of performance		
– Artificial intelligent coverage system contracts	42	–

Note:

(i) Movements in contract liabilities during the years ended 31 December 2024 and 2023 are as follows:

	2024 HK$'000	2023 HK$'000
At 1 January	–	115
Currency translation differences	(1)	(3)
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	43	(112)
At 31 December	42	–

As at 31 December 2024 and 2023, 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 2024

24 OTHER NON-CURRENT ASSETS/TRADE AND OTHER RECEIVABLES

	Note	2024 HK$'000	2023 HK$'000
Trade receivables		**77,635**	143,040
Less: allowance for ECL	(b)	**(12,975)**	(59,164)
Trade receivables, net	(a), (d)	**64,660**	83,876
Deposits and other receivables	(c), (d)	**1,414**	81,827
Consideration receivable		**8**	8
Prepayments to suppliers		**9,572**	1,807
Other prepayments		**1,514**	1,125
Value-added tax and other taxes recoverable		**17,089**	17,334
		94,257	185,977
Analysed as:			
Current assets		**94,257**	106,305
Non-current assets	(c)	**–**	79,672
		94,257	185,977

The Group did not hold any collateral over these balances as at 31 December 2024 (2023: Nil).

Notes:

(a) The following is an aging analysis of trade receivables presented based on the date of invoice and net of allowance as at 31 December 2024 and 2023.

	2024 HK$'000	2023 HK$'000
0 to 90 days	**40,459**	72,289
91 to 180 days	**–**	788
181 to 365 days	**13,431**	5,552
1 to 2 years	**8,454**	5,137
2 to 3 years	**2,316**	110
	64,660	83,876

The credit terms generally are within 60 days (2023: 30 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

24 OTHER NON-CURRENT ASSETS/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 2024 and 2023 are as follows:

	Trade receivables HK$'000	Contract assets HK$'000	Total HK$'000
At 1 January 2023	54,786	10,629	65,415
Impairment loss recognised	5,872	530	6,402
Currency translation differences	(1,494)	(397)	(1,891)
At 31 December 2023	59,164	10,762	69,926
At 1 January 2024	**59,164**	**10,762**	**69,926**
Impairment loss/(reversal of impairment loss) recognised	**6,507**	**(349)**	**6,158**
Bad debt written off	**(51,690)**	**(10,110)**	**(61,800)**
Currency translation differences	**(1,006)**	**(137)**	**(1,143)**
At 31 December 2024	**12,975**	**166**	**13,141**

As at 31 December 2023, the loss allowance for the trade receivables mainly included the provisions on Customer A, who is a state-owned enterprise. The outstanding balance due from Customer A was derived from the Cloud business in prior years and amounted to HK$46,240,000 as at 31 December 2023, 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 the outstanding balance was fully written off as at 31 December 2024.

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

	Note	**2024 HK$'000**	2023 HK$'000
An associate	20	**–**	49,329
An investment property		**–**	30,343
		–	79,672

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

25 FINANCIAL ASSETS AT FVPL

	2024 HK$'000	2023 HK$'000
Equity securities, at fair values		
Unlisted outside Hong Kong	**5,301**	5,481

The carrying amounts of the above financial assets are mandatorily measured at FVPL in accordance with HKFRS 9.

During the year ended 31 December 2023, the Group invested in an unlisted entity at a cash consideration of RMB5,000,000, with a buy-back clause stipulating that the seller will repurchase the shares held by the Group if the investee fails to meet the revenue target by 10 May 2024. As the unlisted equity securities are not active in the market, the Group engaged an independent qualified valuer to perform valuation on the fair value of unlisted equity security as at 31 December 2023. The fair value was estimated by using valuation techniques as detailed in note 5.3.

As at 31 December 2023 and 2024, the financial assets at FVPL were all denominated in RMB.

26 LOANS RECEIVABLES

	2024 HK$'000	2023 HK$'000
Loan to a third party	**2,368**	2,368
Less: provision for impairment loss	**(2,368)**	(2,368)
	–	–

As at 31 December 2024 and 2023, 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 2024 and 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

27 PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

	2024	2023
	HK$'000	HK$'000
Pledged deposits	**841**	868
Non-pledged time deposits with maturity over three months	**53,005**	208,966
Cash and cash equivalents	**94,254**	49,099
	148,100	258,933

As at 31 December 2024, interest rates over bank deposits ranged from 0.00% to 3.98% (2023: 0.00% to 3.98%) per annum.

As at 31 December 2024, the aggregate of pledged bank deposits and bank and cash balances of the Group denominated in RMB amounted to HK$104,913,000 (2023: HK$210,249,000). 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.

28 ASSET CLASSIFIED AS HELD FOR SALE

	2024	2023
	HK$'000	HK$'000
Non-current asset held for sale – Investment property	**–**	45,591

On 16 December 2023, the directors decided to sell an investment property located in PRC which was originally acquired for earning rental income. On the same date, the Company has entered into an agreement with an unrelated buyer and agreed to sell the investment property at a consideration of HK$60.3 million. As at 31 December 2023, an advance of this consideration of HK$30.1 million was received by the Group (note 29). The disposal was completed in January 2024. Investment property classified as held for sale was measured at the lower of its carrying amount and fair value less costs to sell at the time of the reclassification. The fair value of the investment property as at 31 December 2023 was determined by reference to the sale consideration within level 2 measurement as per the fair value hierarchy set in note 5.3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

29 TRADE AND OTHER PAYABLES

	Note	**2024 HK$'000**	2023 HK$'000
Trade payables	(a), (b)	**36,853**	54,724
Accrued employee benefits		**4,462**	2,676
Receipt in advance from disposal of asset classified as held for sale	28	**–**	30,146
Value-added tax and other taxes payables		**3,209**	9,579
Other payables and accruals	(b)	**8,902**	10,704
Accrued construction costs		**13,502**	13,998
		66,928	121,827

Notes:

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

	2024 HK$'000	2023 HK$'000
0 to 90 days	**8,926**	21,338
91 to 365 days	**1,037**	8,474
Over 1 year	**26,890**	24,912
	36,853	54,724

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

(b) The carrying amounts of the Group's trade payables are all denominated in RMB, while the carrying amounts of the Group's other payables and accruals are mainly denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

30 DEFERRED GOVERNMENT GRANTS

As at 31 December 2024, the balance represented deferred government grant of HK$6,881,000 (2023: HK$7,115,000) 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.

31 BANK BORROWINGS

As at 31 December 2024, the bank borrowings are as follows:

	2024			2023		
	Current HK$'000	**Non-current HK$'000**	**Total HK$'000**	Current HK$'000	Non-current HK$'000	Total HK$'000
Bank borrowings	**21,202**	**69,291**	**90,493**	21,924	93,575	115,499

As at 31 December 2024, the Group's bank borrowings are repayable as follows:

	2024 HK$'000	2023 HK$'000
Within 1 year	**21,202**	21,924
Between 1 and 2 years	**23,097**	31,192
Between 2 and 5 years	**46,194**	62,383
	90,493	115,499

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

As at 31 December 2024, the bank borrowings carried interest at the floating rates from 5.90% to 6.90% (2023: 6.25% to 7.00%) per annum. The bank borrowings were secured by the right-of-use assets and the construction-in-progress amounted to HK$64,714,000 (2023: HK$69,082,000) and HK$442,551,000 (2023: HK$443,079,000), 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 2024 and 2023, the carrying amounts of bank borrowings are all denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

32 DEFERRED TAX LIABILITIES

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

	Fair value change of financial assets at FVOCI	
	2024	2023
	HK$'000	HK$'000
At 1 January	**77,795**	122,152
Credited to other comprehensive income	**234,672**	(15,572)
Directly to equity	**–**	(25,492)
Currency translation differences	**(2,562)**	(3,293)
At 31 December	**309,905**	77,795

As at 31 December 2024, the Group had unrecognised tax losses of approximately of HK$201,267,000 (2023: HK$131,307,000) 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$38,276,000 (2023: HK$39,049,000) have no expiry date, the remaining losses will expire at variable dates up to 2029 (2023: up to 2028).

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 2024 and 2023 and as at 31 December 2024 and 2023 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

33 SHARE CAPITAL

Ordinary Shares	Note	Number of shares	Equivalent to HK$'000
Authorised			
Ordinary shares of HK$0.01 each at 1 January 2023, 31 December 2023 and 1 January 2024		**7,316,666,668**	**73,167**
Share consolidation	(a)	**(6,585,000,002)**	**–**
Ordinary shares of HK$0.1 each at 31 December 2024		**731,666,666**	**73,167**
Issued and fully paid			
Ordinary shares of HK$0.01 each at 1 January 2023, 31 December 2023 and 1 January 2024		**6,156,928,860**	**61,569**
Share consolidation	(a)	**(5,541,235,974)**	**–**
Ordinary shares of HK$0.1 each at 31 December 2024		**615,692,886**	**61,569**

Note:

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

34 SHARE OPTIONS (Continued)

(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$	Adjusted exercise price after share consolidation HK$
22 April 2021	2021A	22 April 2021 to 22 April 2022	22 April 2022 to 21 April 2026	0.229	2.29
22 April 2021	2021B	22 April 2021 to 22 April 2023	22 April 2023 to 21 April 2026	0.229	2.29
22 April 2021	2021C	22 April 2021 to 22 April 2024	22 April 2024 to 21 April 2026	0.229	2.29

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:

	2024		2023	
	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	**18,750,000**	**0.229**	20,520,000	0.229
Adjusted for share consolidation	**(16,875,000)**	**0.229**	–	–
Forfeited during the year	**(129,000)**	**2.29**	(1,770,000)	0.229
Outstanding at the end of the year	**1,746,000**	**2.29**	18,750,000	0.229
Exercisable at the end of the year	**1,746,000**	**2.29**	12,375,000	0.229

During the year end 31 December 2024, no share option was exercised or cancelled (2023: Nil).

The share options outstanding at the end of the year have a weighted average remaining contractual life of 2 years (2023: 3 years) and the exercise prices are HK$2.29 (2023: HK$0.229). In 2023 and 2024, no share option was granted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

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$7,000 (2023: HK$351,000) for the year ended 31 December 2024.

35 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Deregistration of a subsidiary

On 26 December 2024, the Group deregistered its subsidiary, 東莞前沿技術研究院, the net assets at the date of deregistration are as follows:

	2024 **HK$'000**
Net assets	**–**
Release of exchange translation reserve	**(2,618)**
Gain on deregistration of a subsidiary (note 8)	**2,618**
Total cash refund	**–**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

35 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	Total HK$'000
At 1 January 2023	318	141,422	141,740
Cash flows	(320)	(31,276)	(31,596)
Interest expenses	9	124	133
Capitalised borrowing costs	–	9,084	9,084
Currency translation differences	(7)	(3,855)	(3,862)
At 31 December 2023	–	115,499	115,499
At 1 January 2024	**–**	**115,499**	**115,499**
Cash flows	**–**	**(29,027)**	**(29,027)**
Interest expenses	**–**	**153**	**153**
Capitalised borrowing costs	**–**	**7,220**	**7,220**
Currency translation differences	**–**	**(3,352)**	**(3,352)**
At 31 December 2024	**–**	**90,493**	**90,493**

(c) Total cash outflow for leases

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

	2024 HK$'000	2023 HK$'000
Within operating cash flows	**285**	77
Within financing cash flows	**–**	311
	285	388

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

36 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	2024 HK$'000	2023 HK$'000
ASSETS			
NON-CURRENT ASSETS			
Investments in subsidiaries		**323,817**	270,253
Amounts due from subsidiaries		**765,671**	797,220
Total non-current assets		**1,089,488**	1,067,473
CURRENT ASSETS			
Other receivables and prepayments		**13**	14
Cash and cash equivalents		**39,195**	591
Total current assets		**39,208**	605
LIABILITIES			
CURRENT LIABILITIES			
Other payables and accruals		**1,660**	1,326
Amounts due to subsidiaries		**94,032**	51,930
Total current liabilities		**95,692**	53,256
Net current liabilities		**(56,484)**	(52,651)
Net assets		**1,033,004**	1,014,822
EQUITY			
CAPITAL AND RESERVES			
Share capital	33	**61,569**	61,569
Reserves		**971,435**	953,253
Total equity		**1,033,004**	1,014,822

Approved by the Board of Directors on 28 March 2025 and are signed on its behalf by:

Dr. Zhang Yangyang
DIRECTOR

Dr. Ji Chunlin
DIRECTOR

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

36 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 2023	2,339,550	103,941	(5,386)	(1,482,273)	1,558	957,390
Loss and total comprehensive income for the year	–	–	–	(4,488)	–	(4,488)
Recognition of share-based payments	–	–	–	–	351	351
At 31 December 2023	2,339,550	103,941	(5,386)	(1,486,761)	1,909	953,253
At 1 January 2024	**2,339,550**	**103,941**	**(5,386)**	**(1,486,761)**	**1,909**	**953,253**
Loss and total comprehensive income for the year	**–**	**–**	**–**	**18,175**	**–**	**18,175**
Recognition of share-based payments	**–**	**–**	**–**	**–**	**7**	**7**
At 31 December 2024	**2,339,550**	**103,941**	**(5,386)**	**(1,468,586)**	**1,916**	**971,435**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

37 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 2024 and 2023 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	Note	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
					2024	2023	
Direct subsidiary							
KuangChi Science Holdings Limited		Hong Kong	Hong Kong	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	(iii)	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	(ii)	PRC	PRC	USD35,000,000	**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	(ii)	PRC	PRC	USD2,000,000	**100%**	100%	Provision of in-depth space services and other innovative technology business and investment holding
* Yuzheng Trading (Shanghai) Company Limited 裕正貿易(上海)有限公司	(ii)	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	(ii)	PRC	PRC	RMB20,000,000	**100%**	100%	Property holding
* Yaohao Trading (Shanghai) Company Limited 耀浩貿易(上海)有限公司	(ii)	PRC	PRC	RMB30,000,000	**100%**	100%	Investment holding
* Shanghai Zhimingxin Technology Co., Ltd. 上海智銘鑫科技有限公司	(iii)	PRC	PRC	RMB45,000,000	**100%**	100%	Property holding

Notes:

(i) 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.

(ii) A wholly-foreign-owned enterprise established under the PRC law.

(iii) A limited liability company.

* The English name is for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

38 COMMITMENTS

Capital commitments outstanding at 31 December 2024 not provided for in the consolidated financial statements are as follows:

	2024 HK$'000	2023 HK$'000
Contracted for		
Property, plant and equipment	**50,853**	25,453
Investment property	**–**	18,684
	50,853	44,137

39 RELATED PARTY TRANSACTIONS

(a) Related party balances

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

	2024 HK$'000	2023 HK$'000
Trade receivables, gross		
– 佛山順德光啟尖瑞裝備有限公司 ("Foshan Shunde Guangqi") (Note (i))	**45,540**	28,640
– 深圳光啟尖瑞技術有限責任公司 ("Guangqi Jiandian Technology") (Note (i))	**–**	295
– 深圳光啟高等理工研究院 (Note (ii))	**–**	1,396
Contract assets		
– Foshan Shunde Guangqi	**6,743**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

39 RELATED PARTY TRANSACTIONS (Continued)

(b) Related party transactions

Name of parties	Nature of transactions	**2024 HK$'000**	2023 HK$'000
深圳光啟超材料技術有限公司 ("Shenzhen New Beams Technology") (Note (i))	Disposal of motor vehicle	**–**	123
	Provision of technical support services based on AI technology	**–**	520
Guangqi Jianduan Technology	Sales of metal components products	**149**	269
Foshan Shunde Guangqi	Sales of artificial intelligent coverage system and related products	**10,124**	4,167
	Sales of metal components products	**62,823**	22,420
	Short-term lease of factory	**867**	–
	Sales of patent	**393**	–
深圳光啟高等理工研究院 (Note (ii))	Sales of materials	**–**	1,274

Notes:

(i) The director and controlling shareholder of the Company, Dr. Liu Ruopeng, is director and shareholder of Kuang-Chi Technologies, while these companies 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) The director and controlling shareholder of the Company, Dr. Liu Ruopeng, has beneficial interests in 深圳光啟高等理工研究院.

(iii) As at 31 December 2024, a company which is controlled by Dr. Liu Ruopeng provided a guarantee to a bank for the Group's banking facilities amounted to HK$299,945,000 (2023: HK$310,159,000), of which HK$90,493,000 (2023: HK$115,499,000) were utilised as at 31 December 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

39 RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel

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

	2024 HK$'000	2023 HK$'000
Salaries and other short-term benefits	2,890	2,346
Retirement benefit scheme contributions	172	212
Share-based payments	5	22
	3,067	2,580

40 CONTINGENT LIABILITY

In 2022, a subsidiary of the Group commenced litigation against a customer of a discontinued operation "Cloud" business for default payment of a sales contract in 2016 amounting to RMB46.5 million. At the same time, a claim of RMB103.5 million plus compensation was lodged against the subsidiary in relation to alleged non-performance under the sales contract by the customer asserting that the subsidiary had breached certain terms of the sales contract.

In 2023, the court decisions awarded in favor of the subsidiary, the customer is liable to repay the subsidiary of RMB44.0 million. After that, the customer has proceeded with an appeal.

In November 2024, an unfavourable second-instance judgement was handed down against the subsidiary in respect of the appeal made by the customer. However, after taking appropriate legal advice, the directors have decided to final appeal against the decision. If the decision is upheld, payment with accrued interest of approximately RMB107.4 million up to the date of this report will be required. The High People's Court of Guangdong Province has acknowledged the application of appeal and is currently conducting retrial review, pending a final ruling. Based on the expert advice of a PRC legal counsel and the current status of the appeal proceeding, the Directors are of the view that it is not probable the final outcome of the appeal proceeding will result in a material adverse impact on the financial position and performance of the Group and conclude that no provision shall therefore be made. However, given the nature of the appeal proceeding, it would be impossible to predict the outcome of the appeal proceeding with a sufficient degree of certainty.

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	Year ended 31 December				
	2020	2021	2022	2023	**2024**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	99,478	113,972	52,523	83,139	**75,514**
Loss before tax	(77,218)	(40,608)	(67,912)	(7,295)	**(44,344)**
Income tax expense	(59)	–	–	–	**(3,083)**
Loss for the year from continuing operations	(77,277)	(40,608)	(67,912)	(7,295)	**(47,427)**
Loss for the year from discontinued operation	(2,092)	–	–	–	**–**
Loss for the year	(79,369)	(40,608)	(67,912)	(7,295)	**(47,427)**
Attributable to:					
Owners of the Company	(78,348)	(40,608)	(67,912)	(7,295)	**(47,427)**
Non-controlling interests	(1,021)	–	–	–	**–**
	(79,369)	(40,608)	(67,912)	(7,295)	**(47,427)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2020	2021	2022	2023	**2024**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	2,843,044	2,769,720	1,979,687	1,828,250	**3,201,631**
Total liabilities	(904,759)	(545,674)	(362,690)	(334,403)	**(474,249)**
	1,938,285	2,224,046	1,616,997	1,493,847	**2,727,382**
Share capital	61,569	61,569	61,569	61,569	**61,569**
Reserves	1,876,718	2,162,479	1,555,428	1,432,278	**2,665,813**
Equity attributable to owners of the Company	1,938,287	2,224,048	1,616,997	1,493,847	**2,727,382**
Non-controlling interests	(2)	(2)	–	–	**–**
Total equity	1,938,285	2,224,046	1,616,997	1,493,847	**2,727,382**