KUANGCHI SCIENCE LIMITED
光啟科學有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 439)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the "**Board**") of KuangChi Science Limited (the "**Company**") hereby announce the preliminary unaudited annual results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019 ("**Preliminary Annual Results**"), together with the comparative audited figures for the year ended 31 December 2018.

For the reasons explained in the section headed "**Review of Unaudited Annual Results**", the Preliminary Annual Results set forth in this announcement have not yet been agreed with the Company's auditors and the Preliminary Annual Results have been reviewed by the Company's audit committee ("**Audit Committee**").

The following is the Preliminary Annual Results of our Group as of and for the year ended 31 December 2019, together with a management's discussion and analysis of our Group's financial position and results of operations. The Preliminary Annual Results have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") and has not been audited. Investors should bear in mind that the Preliminary Annual Results in this announcement may be subject to change.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	**2019** **HK$'000** **(Unaudited)**	2018 *HK$'000* (Audited)
Continuing operations			
Revenue	*4*	**61,555**	158,406
Cost of sales		**(51,370)**	(139,563)
Gross profit		**10,185**	18,843
Other income	*5*	**9,116**	6,016
Other (losses)/gains, net	*6*	**(1,139)**	31,594
Impairment loss on trade receivables		**(34,498)**	(107,513)
Impairment loss on contract assets		**(216)**	(7,884)
Impairment loss on deposits for acquisition of plant and equipment		**–**	(35,565)
Impairment loss on interest in associates		**(16,900)**	–
Selling and distribution expenses		**(23,621)**	(44,189)
Research and development expenses		**(93,436)**	(150,579)
Administrative expenses		**(77,284)**	(114,121)
Operating loss	*7*	**(227,793)**	(403,398)
Finance income		**1,340**	4,435
Finance costs		**(22,623)**	(23,692)
Finance costs, net	*8*	**(21,283)**	(19,257)
Share of results of associates		**(26,215)**	(7,340)
Loss before tax		**(275,291)**	(429,995)
Income tax expense	*9*	**–**	(3,452)
Loss from continuing operations		**(275,291)**	(433,447)
Loss from discontinued operation		**(613)**	(64,169)
Loss for the year		**(275,904)**	(497,616)

	Note	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Loss for the year attributable to:			
Owners of the Company		**(275,467)**	(457,609)
Non-controlling interests		**(437)**	(40,007)
		(275,904)	(497,616)
Loss for the year from continuing operations attributable to:			
Owners of the Company		**(275,148)**	(425,218)
Non-controlling interests		**(143)**	(8,229)
		(275,291)	(433,447)
Loss for the year from discontinued operation attributable to:			
Owners of the Company		**(319)**	(32,391)
Non-controlling interests		**(294)**	(31,778)
		(613)	(64,169)
Loss per share			
From continuing and discontinued operations			
Basic (HK cents per share)	*11*	**(4.47)**	(7.43)
Diluted (HK cents per share)	*11*	**(4.47)**	(7.43)
From continuing operations			
Basic (HK cents per share)	*11*	**(4.47)**	(6.91)
Diluted (HK cents per share)	*11*	**(4.47)**	(6.91)

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 *HK$'000* (Unaudited)	2018 *HK$'000* (Audited)
Loss for the year	**(275,904)**	(497,616)
Other comprehensive loss		
Items that may be reclassified to profit or loss:		
Release of reserve upon deemed disposal of a subsidiary	**–**	205
Release of reserve upon deregistration of subsidiaries	**93**	–
Exchange differences on translation of foreign operations	**(13,507)**	(76,204)
	(13,414)	(75,999)
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	**(58,675)**	(620,783)
Income tax relating to fair value change of financial assets through other comprehensive income	**8,993**	81,140
	(49,682)	(539,643)
Other comprehensive loss, net of tax	**(63,096)**	(615,642)
Total comprehensive loss for the year	**(339,000)**	(1,113,258)
Total comprehensive loss for the year attributable to:		
Owners of the Company	**(338,040)**	(1,075,183)
Non-controlling interests	**(960)**	(38,075)
	(339,000)	(1,113,258)
Total comprehensive loss attributable to owners of the Company arising from:		
Continuing operations	**(337,154)**	(1,044,288)
Discontinued operation	**(886)**	(30,895)
	(338,040)	(1,075,183)
Total comprehensive loss attributable to the non-controlling interests arising from:		
Continuing operations	**(143)**	(7,678)
Discontinued operation	**(817)**	(30,397)
	(960)	(38,075)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Note	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**377,175**	304,972
Intangible assets and goodwill		**5,023**	10,184
Investments in associates		**26,307**	61,346
Financial assets at fair value through other comprehensive income		**748,990**	837,246
Right-of-use assets		**161,171**	–
Prepaid land lease payments		**–**	80,747
Long-term deposits and prepayments		**1,118**	21,436
Total non-current assets		**1,319,784**	1,315,931
CURRENT ASSETS			
Prepaid land lease payments		**–**	2,248
Inventories		**1,406**	4,000
Contract assets		**14,524**	14,598
Trade and other receivables	*12*	**302,589**	372,394
Loans receivables		**–**	9,731
Pledged bank deposits		**193**	310
Cash and cash equivalents		**245,879**	429,611
Total current assets		**564,591**	832,892
Total assets		**1,884,375**	2,148,823
EQUITY			
Share capital		**61,569**	61,569
Other reserves		**1,439,426**	1,549,961
Accumulated losses		**(442,190)**	(221,479)
Equity attributable to owners of the Company		**1,058,805**	1,390,051
Non-controlling interests		**33,150**	41,864
Total equity		**1,091,955**	1,431,915

	Note	2019 *HK$'000* (Unaudited)	2018 *HK$'000* (Audited)
LIABILITIES			
NON-CURRENT LIABILITIES			
Lease liabilities		**478**	–
Bank and other borrowings	*14*	**157,980**	443,677
Deferred income tax liabilities		**59,421**	69,705
Total non-current liabilities		**217,879**	513,382
CURRENT LIABILITIES			
Trade and other payables	*13*	**180,928**	141,139
Contract liabilities		**7,872**	4,043
Lease liabilities		**1,082**	–
Bank and other borrowings	*14*	**346,425**	22,772
Deferred government grants		**26,004**	22,430
Income tax payable		**12,230**	13,142
Total current liabilities		**574,541**	203,526
Total liabilities		**792,420**	716,908
Total equity and liabilities		**1,884,375**	2,148,823

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 1220, 12/F, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together the "**Group**") are in the research, development and manufacturing of innovative products for future technology business, and provision of innovative technology solution and other services.

These consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") and Hong Kong Accounting Standards ("**HKAS**") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements also comply with the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange. The consolidated financial statements have been prepared on a historical cost basis, except for the financial assets at fair value through other comprehensive income ("**FVOCI**") and derivative financial instruments, which are measured at fair value.

The preparation of financial statements in conformity with HKFRS 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.

(b) Going Concern

The Group incurred a loss of HK$275,904,000 for the year ended 31 December 2019 and as of that date, the Group's current liabilities exceeded its current assets by HK$9,950,000 and had net debt of HK$259,893,000. 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.

The ability of the Group to operate as a going concern is dependent upon the availability of the banking facilities and other borrowings from a third party. At 31 December 2019, the other borrowings of HK$335,250,000 was due for repayment on 6 April 2020. The Group is currently negotiating with the lender for renewal of this facility with every six-months period. Based on the communications with the lender, the directors of the Company consider that other borrowings would be renewed in due course.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the directors considered that it is appropriate to adopt the going concern in preparing these consolidated financial statements based on the current working capital forecast of the Group.

The directors believe that the Group is able to continue as a going concern and to meet their financial liabilities as and when they fall due in the foreseeable future. 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.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("**HKAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

(ii) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

(iii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

(iv) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

(v) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities are ranged from 8.6% to 9.9%.

	At 1 January 2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	6,332
Less: commitments relating to leases exempt from capitalisation – short- term leases and other leases with remaining lease term ending on or before 31 December 2019	(2,587)
	3,745
Less: Total future interest expenses	(356)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 and lease liabilities as at 1 January 2019	3,389
Analysed as	
Current	1,496
Non-current	1,893
	3,389

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	3,389
Reclassified from prepaid land lease payments *(note)*	82,995
Reclassified from rental prepayments	27,689
	114,073
By class:	
Leased properties	31,078
Leasehold land	82,995
	114,073

Note:

Upfront payments for leasehold lands in the PRC were classified as prepaid land lease payments premiums as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid land lease payments amounting to HK$80,747,000 and HK$2,248,000 respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2018	Adjustments	Carrying amount under HKFRS 16 at 1 January 2019
	HK$'000	*HK$'000*	*HK$'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Prepaid land lease payments	80,747	(80,747)	–
Right of use assets	–	114,073	114,073
Long-term deposits and prepayments	21,436	(19,454)	1,982
Total non-current assets	1,315,931	13,872	1,329,803
Prepaid land lease payments	2,248	(2,248)	–
Trade and other receivables	372,394	(8,235)	364,159
Total current assets	832,892	(10,483)	822,409
Total assets	**2,148,823**	**3,389**	**2,152,212**
Lease liabilities (current)	–	1,496	1,496
Total current liabilities	203,526	1,496	205,022
Lease liabilities (non-current)	–	1,893	1,893
Total non-current liabilities	513,382	1,893	515,275
Total liabilities	**716,908**	**3,389**	**720,297**

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]
Revised Conceptual Framework	Amendments to References to the Conceptual Framework in HKFRS Standards[4]

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2020.

Except for the amendments to HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

4 REVENUE AND SEGMENT REPORTING

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

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
From continuing operations		
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 "Cloud"	**–**	14,929
– Sales of chips	**7,311**	105,044
– Provision of procurement services	**6,663**	7,209
Revenue recognised over time		
– Sales of artificial intelligent coverage system and related products	**47,581**	26,854
– Provision of "Cloud" maintenance services	**–**	4,370
	61,555	158,406

(b) Segment Information

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors, the chief operating decision maker (the "**CODM**"), in order to allocate resources to the segments and to assess their performance.

The financial information provided to the CODM does not contain profit or loss information of each product line or each market segment and the CODM review the operating results of the Group on a consolidated basis. Therefore, the operation of the Group constitutes one single reportable segment and no further analysis of segments is presented.

Segment revenue and results

The financial information presented to the CODM is consistent with the consolidated statement of profit or loss. The CODM consider the Group's loss for the year as the measurement of the segment results.

Geographical information

The Group operates so in three principal geographical areas – the People's Republic of China (excluding Hong Kong) (the "**PRC**"), Hong Kong and New Zealand.

Information about the Group's revenue from external customers is presented based on the location at which the goods delivered or the services 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***	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
PRC	**47,581**	46,153	**543,834**	417,181
Hong Kong	**13,974**	112,253	**653**	158
	61,555	158,406	**544,487**	417,339

* *Non-current assets exclude financial assets at fair value through other comprehensive income and investments in associates.*

Information about major customers

Revenues from customers contributing 10% or more of the total revenue of the Group for the years ended 31 December 2019 and 2018:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Customer 1	**N/A#**	78,140
Customer 2	**7,310**	26,904
Customer 3	**N/A#**	26,052
Customer 4	**23,236**	N/A#
Customer 5	**11,671**	N/A#
Customer 6	**6,663**	N/A#

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

5 OTHER INCOME

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
From continuing operations		
Government grants	**3,499**	2,057
Consultancy service income	**1,636**	–
Dividend income from equity instruments at FVOCI	**–**	549
Sales of scrap materials	**471**	–
Sundry income	**3,510**	3,410
	9,116	6,016

6 OTHER (LOSSES)/GAINS, NET

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
From continuing operations		
Exchange loss, net	**(1,213)**	(423)
Loss on disposal of plant and equipment	**(25)**	(2,342)
Gain on deemed disposal of subsidiaries	**–**	34,359
Gain on deemed disposal of associates	**99**	–
	(1,139)	31,594

7 OPERATING LOSS

Operating loss has been arrived at after charging:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
From continuing operations		
Employee benefit expenses	**95,453**	153,471
Cost of inventories sold	**48,110**	137,810
Cost of services	**3,260**	1,753
Amortisation of intangible assets	**5,043**	6,147
Amortisation of prepaid land lease payments	**–**	2,341
Amortisation of right-of-use assets	**8,790**	–
Auditor's remuneration		
– Audit services for the year	**1,813**	1,803
– Underprovision for the previous years	**–**	999
– Other services	**–**	1,300
Depreciation of property, plant and equipment	**10,233**	7,538
Operating lease rental on land and buildings	**–**	27,588
Lease payments not included in the measurement of lease liabilities	**11,420**	–
Impairment loss on trade receivables	**34,498**	107,513
Impairment loss on contract assets	**216**	7,884
Impairment loss on prepayment and other receivables	**1,376**	3,420
Impairment loss on deposits for acquisition of plant and equipments	**–**	35,565
Impairment loss on property, plant and equipment	**3,200**	–
Impairment loss on right-of-use assets	**7,253**	–

8 FINANCE COSTS, NET

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
From continuing operations		
Finance income		
Interest income:		
– Short term and time deposits	**1,179**	2,946
– Loan to the related parties	**161**	1,489
	1,340	4,435
Finance costs		
Interest expenses:		
– Lease liabilities	**(154)**	–
– Bank and other borrowings	**(32,129)**	(29,764)
	(32,283)	(29,764)
Amounts capitalised	**9,660**	6,072
Finance costs	**(22,623)**	(23,692)
Finance costs, net	**(21,283)**	(19,257)

9 INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
From continuing operations		
Current income tax		
PRC Corporate Income Tax		
– Under-provision in prior years	**–**	3,452
Deferred income tax	**–**	–
Income tax expenses	**–**	3,452

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the year (2018: 16.5%).

PRC subsidiaries are subject to PRC Corporate Income Tax ("**CIT**") at 25% except for two PRC subsidiaries established in Qianhai that are subject to a reduced preferential CIT rate of 15% and another PRC subsidiary under High and New Technology Enterprise that is subject to a reduced preferential CIT rate of 15% for 3 years from 2016 to 2019 according to the applicable CIT Law.

Prima facie tax in New Zealand is calculated at a rate of 28% of the estimated assessable profits for the year ended 31 December 2019 (2018: 28%). No current tax was provided in these jurisdictions for the year ended 31 December 2019 as there were no assessable profits (2018: Nil).

10 DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2019, nor has any dividend been proposed since the end of the reporting period (2018: Nil).

11 LOSS PER SHARE

(a) From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the shareholders of the Company is based on the following data:

Loss figures are calculated as follows:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Loss for the year attributable to owners of the Company	**(275,467)**	(457,609)
Add: Loss for the year from discontinued operation	**319**	32,391
Loss for the purpose of basic and diluted loss per share from continuing operations	**(275,148)**	(425,218)

	2019	2018
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**6,156,929**	6,156,929
Effect of dilutive potential ordinary shares	**–**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	**6,156,929**	6,156,929

The computation of diluted loss per share does not assume the exercise of the outstanding shares options issued since the assumed exercise would result in a decrease in loss per share.

(b) From continuing operations and discontinued operation

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

Loss figures

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Loss for the year attributable to owners of the Company	**(275,467)**	(457,609)

For the number of share used in the computation of basic and diluted loss per share please refer to note 11(a).

12 TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**330,754**	370,644
Less: allowance for expected credit loss	**(60,258)**	(25,788)
Trade receivables, net	**270,496**	344,856
Deposits and other receivables	**3,398**	3,341
Interest receivables	**–**	3,636
Prepayments to suppliers	**13,418**	16,051
Rental prepayments not under the measurement of lease liabilities	**4,603**	32,105
Value-added tax and other tax recoverable	**11,792**	–
	303,707	399,989
Less: impairment of prepayment and doubtful receivables	**–**	(6,159)
	303,707	393,830
Less: non-current portion	**(1,118)**	(21,436)
	302,589	372,394

The following is an aging analysis of trade receivables presented based on date of revenue recognition and net of allowance as at 31 December 2019 and 2018:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 90 days	**168,415**	120,593
91 to 180 days	**76**	11,650
181 to 365 days	**35,949**	25,617
1 to 2 years	**24,252**	84,791
2 to 3 years	**33,350**	102,205
Over 3 years	**8,454**	–
	270,496	344,856

13 TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**22,229**	25,927
Accrued employee benefits	**12,240**	16,420
Value-added tax and other tax payables	**7,123**	15,018
Other payables and accruals	**32,361**	44,091
Consideration payable for acquisition of non-controlling interest	**–**	6,069
Consideration payable for acquisitions of subsidiaries	**49,070**	–
Accrued construction costs	**57,905**	33,614
	180,928	141,139

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

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 90 days	**6,869**	4,057
Over 90 days	**15,360**	21,870
	22,229	25,927

14 BANK AND OTHER BORROWINGS

As at 31 December 2019, the bank borrowings were secured by the right-of-use assets and the construction-in-progress amounted to HK$79,251,000 and HK$364,247,000, respectively, 100% equity interest of one of the Company's subsidiary and was guaranteed by the Company and a company controlled by Dr. Liu R.

As at 31 December 2018, the bank borrowings were secured by prepaid land lease payment of HK$82,995,000 and construction in progress of HK$287,221,000 and was guaranteed by the Company and a company controlled by Dr. Liu R.

As at 31 December 2019, other borrowings amounted to HK$335,250,000 (2018: HK$341,580,000) were secured by the Group's investment in Kuang-Chi Technologies Co., Ltd. which was classified as financial assets at fair value through other comprehensive income with a carrying amount of HK$731,390,000 (2018: 806,282,000) and guaranteed by the Company's shareholder and a company controlled by Dr. Liu R.

As at 31 December 2019, the total available banking facilities granted to the Group were HK$316,186,000 (2018: 398,510,000), of which HK$147,031,000 (2018: 273,641,000) were unutilised.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW AND PROSPECTS

The Company and its subsidiaries (the "**Group**") are principally engaged in the research and development as well as manufacture of innovative products for the future technology business, and in the provision of other innovative technology service solutions (the "**Future Technology Business**"). For the twelve months ended 31 December 2019 (the "**Period**"), the Group's total revenue amounted to approximately HK$62 million and the net loss was approximately HK$276 million.

The Future Technology Business – in-depth development of vertical business sectors

The Group focuses on the Future Technology Business. It was currently developing and integrating different future technologies, like "AI" technology and "future space" technology. With regard to the "AI technology" business, the Group has long been committed to the research and development of "AI" technology-related algorithms, a platform for big data analysis and professional AI-infused products for vertical industries based on these algorithms and platform. The Group's AI algorithms were early applied to aeronautic equipments such as Cloud and long-endurance drones, and subsequently independently developed into the principal business, thus having created an AI system with AI algorithm engines as its featured product. The AI system could access a variety of fixed and mobile front-end hardware devices and enable these devices with AI. On this basis and with the Company's long-term experience in system integration, integrated front-end hardware subsequently created an integrated overall solution comprising professional system integration, installation, debugging, operation and maintenance services. During the Period, our "AI" technology-infused products played a significant role in various scenarios, with further progress made in our business expansion. In terms of the "future space" technology business, the Group provided a data basis for the AI system by means of its developed aeronautic products such as Cloud and drones to collect multi-source information such as visible light and infrared.

During the Period, our AI systems were deployed and applied in a core area of Shanghai and a transportation hub area in Chongqing. In the Shanghai area, the Group entered into a cooperation agreement with the People's Government of Huangpu District, explicitly indicating that we would work together to proceed with the "Belt, Road and Ring" project. According to the cooperation agreement, the Group would collaborate with the local people's government to promote the application of "AI technology" as well as the research and development of new AI technologies for jointly carrying out refined urban management. By taking this opportunity, Shanghai KuangChi Smart City Network Technology Co., Ltd. ("**KuangChi Smart City**") was incorporated in Shanghai as KuangChi Science's AI headquarters that focused on the development and application of AI technology. At the World Artificial Intelligence Conference 2019, KuangChi Science's AI Headquarters was named as one of the 33 major AI industry projects in Shanghai. On 15 November 2019, KuangChi Smart City completed the establishment of the first "intelligent and non-inductive service" platform in Shanghai Huangpu District's Administrative Service Center and conducted an online test of the platform. The platform combined government services with AI technology, making it the first innovative application project for "AI + administrative services", which was endorsed by the customer. During the Period, the Group successfully won the bid for the security-related build-up project at the northern railway station in Chongqing. This project served as a benchmark project for the Group to establish a presence in the Chongqing market. It also acted as the trial scheme to promote the Group's "AI" technology-infused products to other districts and counties in Chongqing.

During the same period, following the deployment in Shanghai, Chongqing and other places, major breakthroughs were made in the "AI" technology commercialization project in the market of the Guangdong-Hong Kong-Macau Greater Bay Area. Kuangchi Space Technology Company Limited, an indirectly wholly-owned subsidiary of the Company, successfully won the bid for a project involving an artificial intelligent coverage system (the "**Intelligent Project**") in Shunde District, Foshan City. Using an intelligent engine as the background intelligent algorithm and big data platform, the Intelligent Project could access a variety of fixed front-ends terminals and then simultaneously access and empower the mobile front-end AI helmets to create an integrated overall solution, offering various functions such as instant dynamic data acquisition and intelligent analysis of big data, thus having effectively increased the efficiency of business services.

The management believes that with the development of the 5G network, the Company's "AI" technology will gradually be applied to more vertical industries, in particular the acceleration of the build-up of smart cities, and in line with its own development goals and industrial needs. AI will become a new impetus that boosts economic and social development, generating enormous demand for AI applications and market prospects in the field of smart cities.

Impairment losses on trade receivables and contract assets

With reference to the supplementary information in the Group's 2018 Annual Report ("**2018 Annual Report**") and 2019 Interim Report ("**2019 Interim Report**"), details about the impairment losses on trade receivables and contract assets were updated as follows:

Having made the best efforts to keep communicating with customers, the management successfully recovered approximately RMB93,200,000 in the first half of 2019 in connection with the trade receivables related to the sales of self-developed aeronautic products ("**Cloud**") in the previous year.

For the customer located in Dongguan, the People's Republic of China (the "**PRC**") (the "**Dongguan Customer**"), our team had conference calls with Dong Guan SSL Holdings Co., Ltd. on 30 July, 3 September and 27 November 2019, in which we had a number of discussions on the quotation proposals for the artificial intelligent coverage system. Regarding the use of the recovered payment from Cloud as a prerequisite for the implementation of a new product, the Dongguan Customer said their superiors were still considering the proposal. On 24 February 2020, the team made a telephone call to the company, asking about the impact of the novel coronavirus, and saying that we could upgrade the artificial intelligent coverage system solution by adding long-distance non-contact temperature measurement and abnormal temperature alarm modules to help prevent and control the epidemic. The Dongguan Customer expressed interest, but they said they needed to conduct internal research and to report to their superiors.

As to the customer located in Guizhou in the PRC (the "**Guizhou Customer**"), our project team held a video conference with Guizhou Yunweitong Technology Co., Ltd. on 14 June 2019 to show and brief on our latest product – artificial intelligent coverage system. We also discussed a payment recovery plan. On 27 July 2019, the management team sent a project specialist to Zunyi to discuss the payment recovery plan with the responsible official of the company. The project specialist told the company that the management team would like to arrange a formal visit to the top officials of the management committee of the Xinpu Economic Development Zone of Guizhou to brief on our new products and the payment recovery plan.

The Group and the management were communicating and negotiating with the customer intensively during the Period aiming at to resolve the problem regarding the outstanding trade receivables. The management was positive towards the repayments. However, the outstanding payments of the Dongguan Customer and the Guizhou Customer still remained unsettled during the Period. Accordingly, the Group continued to retain a full impairment provision for the relevant trade receivables and contract assets.

FINANCIAL REVIEW

Revenue and operating performance

The revenue of the Group decreased by approximately HK$96 million or 60.8% to approximately HK$62 million for the year ended 31 December 2019 from approximately HK$158 million for the year ended 31 December 2018. Such decrease is mainly caused by a decrease in the revenue generated from the Group's "future space" technology products.

The net loss of the Group decreased by approximately HK$222 million or 44.6% to approximately HK$276 million for the year ended 31 December 2019 from approximately HK$498 million for the year ended 31 December 2018. Such decreased is primarily attributable to: (i) the decrease in an impairment loss on account receivable, contract assets and deposits for acquisition of plant and equipment; (ii) a significant decrease of approximately HK$115 million in research and development, selling and distribution and administrative expenses compare with the year ended 31 December 2018.

Manpower development

With regard to staff development, the Company strengthened the talent nurturing system and designed new employee development system and mechanism to enhance staff quality. The Group will adopt the core strategy to continue to attract and nurture high-calibre employees, while introducing talents on space technology and AI at a global level. As at 31 December 2019, the Group had 239 employees being experts on high and new technology from around the world and approximately 18.8% of them were with master's degree or above. This has provided a strong talent foundation that in turn strengthened their core competitiveness.

CAPITAL STRUCTURE

The Group finances its working capital requirements through a combination of funds generated from operations and borrowings. The Group had cash and cash equivalents of HK$245,879,000 (unaudited) as at 31 December 2019, a decrease of HK$183,732,000 as compared to 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the total shareholders' funds of the Group amounted to approximately HK$1,091,955,000 (31 December 2018: HK$1,431,915,000), the total assets of approximately HK$1,884,375,000 (31 December 2018: HK$2,148,823,000) and the total liabilities of approximately HK$792,420,000 (31 December 2018: HK$716,908,000).

As at 31 December 2019, the Group had bank balances and cash of approximately HK$245,879,000 (31 December 2018: HK$429,611,000) and pledged bank deposits of HK$193,000 (31 December 2018: HK$310,000). The gearing ratio as of 31 December 2019, defined as the percentage of the total interest bearing debt, including bank and other borrowings of approximately HK$505,965,000 (31 December 2018: HK$466,449,000), to net asset value, was approximately 46.34% (31 December 2018: 32.58%).

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 activities to reduce the exchange risk.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

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

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 million (equivalent to approximately HK$345,000,000). 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$1,021,151,000 on the initial recognition of the subscription right of such shares and a loss from changes in fair value of HK$229,913,000. 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 on the same day. As at 13 February 2017, the fair value of the derivatives right of shares of KCT amounted to approximately HK$1,419,691,000 and hence the Group recognised a fair value gain of HK$616,404,000 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 directors of the Company consider 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$1,419,691,000 which is the fair value of KCT as at 13 February 2017. For the year ended 31 December 2019, the fair value loss of HK$59,950,000 (2018: 540,933,000) was recognised in other comprehensive loss.

EVENT AFTER THE REPORTING YEAR

Save as disclosed above, there was no event after the reporting year.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had approximately 239 employees. The Group provides competitive remuneration packages to employees with the share option scheme and the restricted shares award scheme. The Group also provides attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

CORPORATE GOVERNANCE PRACTICES

The Board acknowledges the importance of the highest standards of corporate governance as the Board believes that effective corporate governance practices are fundamental to enhance the shareholders' value and safeguard the interests of the shareholders. Accordingly, the Company has adopted sound corporate governance principles that emphasis effective internal control and accountability to all shareholders.

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

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

Save as the deviations from the code provisions A.1.3, A.6.7 and E.1.2 of the CG Code, the Company has complied with the CG Code during the year under review.

Code provision A.1.3 of the CG Code requires that notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. During the year, one regular Board meeting was convened with less than 14 days' notice in order to enable the Board members to react timely and carry out expeditious decision making in respect of certain business matters which were significant to the Group's business. As a result, the aforesaid regular Board meeting was held with a shorter notice period than required with the consent of the Directors. The Board will do its best endeavor to meet the requirement of code provision A.1.3 of the CG Code in the future.

Code provisions A.6.7 and E.1.2 of the CG Code stipulate that independent non-executive directors, non-executive directors and the chairman of the board of directors should attend annual general meetings. The Chairman of the Board of Directors, Dr. Liu Ruopeng, and three independent non-executive Directors Ms. Cao Xinyi (resigned on 23 July 2019), Dr. Wong Kai Kit and Dr. Liu Jun, did not attend the annual general meeting held on 24 June 2019, due to other business commitments.

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

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIVIDEND

No dividend was paid, declared or proposed during the year ended 31 December 2019, nor had any dividend been proposed for the year ended 31 December 2019 (year ended 31 December 2018: Nil).

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("**Model Code**") as its model code for securities transactions by Directors. Having made specific enquiries, all the Directors confirmed that they had complied with the Model Code during the year ended 31 December 2019.

AUDIT COMMITTEE

The Preliminary Annual Results is unaudited and has not been reviewed by the external auditor of the Company. The Audit Committee has reviewed the Preliminary Annual Results and agreed to the accounting principles and practices adopted by the Company. The Audit Committee is of the view that the financial statements have been prepared in accordance with the applicable accounting standards and in compliance with the Listing Rules and relevant statutory provisions, and is satisfied that sufficient disclosure has been made.

REVIEW OF UNAUDITED ANNUAL RESULTS

The Board wishes to emphasize that the Preliminary Annual Results of the Group set out above is extracted directly from the latest unaudited management accounts of the Group for the year ended 31 December 2019 and is subject to changes resulting from, among other things, (i) further review by the Company and relevant professional parties; (ii) the receipt of banking confirmations and other audit confirmations required to complete the audit procedures by the Company's auditor; (iii) audit procedures on subsequent review on receivables and payables by the Company's auditor; and (iv) any potential adjustments that might be necessary. Due to the COVID-19 pandemic in China, subsequent to the Chinese Lunar New Year, many cities have been under lockdown and facing travel and other restrictions in efforts to curb the spread of COVID-19. As a result, the progress of the auditor's audit field work was affected. As of the date of this announcement, the audit evidence obtained were insufficient for our auditor to agree with the issue of the Preliminary Annual Results in this announcement.

The preparation of the audited consolidated financial statements of the Group for the year ended 31 December 2019 is still in progress and the process of providing further or requisite information to the Company's auditors for them to perform and complete their audit procedures in respect of the consolidated financial statements of the Group for the year ended 31 December 2019 is still on-going. The Preliminary Annual Results of the Group is subject to change and has not been agreed, reviewed, audited or approved by the auditor of the Company as required under Rule 13.49(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") (the "**Listing Rules**").

In order to keep the shareholders of the Company (the "**Shareholders**") and potential investors of the Company informed of the Group's business operation and financial position, the Board has set forth in this announcement the Preliminary Annual Results as extracted from the latest unaudited management accounts of the Group for the year ended 31 December 2019. The Directors confirmed that the Preliminary Annual Results were prepared on the same basis as used in the audited consolidated financial statements of the Group for the year ended and as of 31 December 2018.

PUBLICATION OF AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

It is expected the Company will announce its audited financial results for the year ended 31 December 2019 no later than Mid-May 2020. The Company will publish further announcement(s) to inform Shareholders and potential investors of the Company any material developments in connection with the 2019 audited financial results as and when appropriate.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
KuangChi Science Limited
Liu Ruopeng
Chairman and Executive Director

Hong Kong, 31 March 2020

As at the date of this announcement, the board of directors comprises four executive directors, namely Dr. Liu Ruopeng, Dr. Luan Lin, Dr. Zhang Yangyang and Dr. Ji Chunlin; one non-executive director namely Mr. Li Chiu Ho, and three independent non-executive directors, namely Dr. Liu Jun, Dr. Wong Kai Kit and Mr. Choi Wing Koon.