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KUANGCHI SCIENCE LIMITED

光啟科學有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)

**FURTHER ANNOUNCEMENT
ON THE AUDITED ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

Reference is made to the announcement of KuangChi Science Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 31 March 2020 in relation to the unaudited annual results of the Group for the year ended 31 December 2019 (the “**Unaudited Annual Results Announcement**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Unaudited Annual Results Announcement.

AUDITED ANNUAL RESULTS

The Board is pleased to announce that the Group’s auditor, Crowe (HK) CPA Limited, has completed its audit of the Group’s consolidated financial statements for the year ended 31 December 2019 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The audited annual results for the year ended 31 December 2019 were approved by the Board on 7 May 2020, details of which are set out below:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
Continuing operations			
Revenue	5	60,822	158,406
Cost of sales		<u>(51,009)</u>	<u>(139,563)</u>
Gross profit		9,813	18,843
Other income	6	8,941	6,016
Other gains, net	7	4,824	31,594
Impairment loss on trade receivables		(32,595)	(107,513)
(Reversal of impairment loss)/impairment loss on contract assets		329	(7,884)
Impairment loss on deposits for acquisition of plant and equipment		–	(35,565)
Impairment loss on investments in associates		(38,767)	–
Selling and distribution expenses		(23,562)	(44,189)
Research and development expenses		(95,155)	(150,579)
Administrative expenses		<u>(77,759)</u>	<u>(114,121)</u>
Operating loss	8	(243,931)	(403,398)
Finance income		1,340	4,435
Finance costs		<u>(22,623)</u>	<u>(23,692)</u>
Finance costs, net	9	(21,283)	(19,257)
Share of results of associates		<u>(27,900)</u>	<u>(7,340)</u>
Loss before tax		(293,114)	(429,995)
Income tax expense	10	–	<u>(3,452)</u>
Loss from continuing operations		(293,114)	(433,447)
Loss from discontinued operation		<u>(613)</u>	<u>(64,169)</u>
Loss for the year		<u>(293,727)</u>	<u>(497,616)</u>

	<i>Note</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
(Loss)/profit for the year attributable to:			
Owners of the Company		(294,436)	(457,609)
Non-controlling interests		709	(40,007)
		<u>(293,727)</u>	<u>(497,616)</u>
(Loss)/profit for the year from continuing operations attributable to:			
Owners of the Company		(294,117)	(425,218)
Non-controlling interests		1,003	(8,229)
		<u>(293,114)</u>	<u>(433,447)</u>
Loss for the year from discontinued operation attributable to:			
Owners of the Company		(319)	(32,391)
Non-controlling interests		(294)	(31,778)
		<u>(613)</u>	<u>(64,169)</u>
Loss per share			
From continuing and discontinued operations			
Basic (HK cents per share)	<i>12</i>	(4.78)	(7.43)
Diluted (HK cents per share)	<i>12</i>	(4.78)	(7.43)
From continuing operations			
Basic (HK cents per share)	<i>12</i>	(4.78)	(6.91)
Diluted (HK cents per share)	<i>12</i>	<u>(4.78)</u>	<u>(6.91)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
Loss for the year	(293,727)	(497,616)
Other comprehensive loss		
<i>Items that may be reclassified to profit or loss:</i>		
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	<u>(14,388)</u>	<u>(76,204)</u>
	<u>(14,481)</u>	<u>(75,999)</u>
<i>Items that will not be subsequent reclassified to profit or loss:</i>		
Changes in fair value of financial assets at fair value through other comprehensive income	(84,328)	(620,783)
Income tax relating to fair value change of financial assets through other comprehensive income	<u>8,993</u>	<u>81,140</u>
	<u>(75,335)</u>	<u>(539,643)</u>
Other comprehensive loss, net of tax	<u>(89,816)</u>	<u>(615,642)</u>
Total comprehensive loss for the year	<u>(383,543)</u>	<u>(1,113,258)</u>
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Company	(383,729)	(1,075,183)
Non-controlling interests	<u>186</u>	<u>(38,075)</u>
	<u>(383,543)</u>	<u>(1,113,258)</u>
Total comprehensive loss attributable to owners of the Company arising from:		
Continuing operations	(382,843)	(1,044,288)
Discontinued operation	<u>(886)</u>	<u>(30,895)</u>
	<u>(383,729)</u>	<u>(1,075,183)</u>
Total comprehensive income/(loss) attributable to the non-controlling interests arising from:		
Continuing operations	1,003	(7,678)
Discontinued operation	<u>(817)</u>	<u>(30,397)</u>
	<u>186</u>	<u>(38,075)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		380,264	304,972
Intangible assets and goodwill		5,023	10,184
Investments in associates		–	61,346
Financial assets at fair value through other comprehensive income		731,390	837,246
Right-of-use assets		157,729	–
Prepaid land lease payments		–	80,747
Long-term deposits and prepayments		1,118	21,436
		<hr/>	<hr/>
Total non-current assets		1,275,524	1,315,931
CURRENT ASSETS			
Prepaid land lease payments		–	2,248
Inventories		1,406	4,000
Contract assets		14,281	14,598
Trade and other receivables	<i>13</i>	304,953	372,394
Loans receivables		–	9,731
Pledged bank deposits		193	310
Cash and cash equivalents		245,879	429,611
		<hr/>	<hr/>
Total current assets		566,712	832,892
		<hr/>	<hr/>
Total assets		1,842,236	2,148,823
EQUITY			
Share capital		61,569	61,569
Other reserves		1,421,209	1,549,961
Accumulated losses		(458,702)	(221,479)
		<hr/>	<hr/>
Equity attributable to owners of the Company		1,024,076	1,390,051
Non-controlling interests		24,296	41,864
		<hr/>	<hr/>
Total equity		1,048,372	1,431,915
		<hr/>	<hr/>

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
LIABILITIES			
NON-CURRENT LIABILITIES			
Lease liabilities		554	–
Bank and other borrowings	<i>15</i>	157,980	443,677
Deferred income tax liabilities		59,421	69,705
		<hr/>	<hr/>
Total non-current liabilities		217,955	513,382
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and other payables	<i>14</i>	182,166	141,139
Contract liabilities		7,872	4,043
Lease liabilities		1,212	–
Bank and other borrowings	<i>15</i>	346,425	22,772
Deferred government grants		26,004	22,430
Income tax payable		12,230	13,142
		<hr/>	<hr/>
Total current liabilities		575,909	203,526
		<hr/>	<hr/>
Total liabilities		793,864	716,908
		<hr/>	<hr/>
Total equity and liabilities		1,842,236	2,148,823
		<hr/>	<hr/>

NOTES TO THE 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 GOING CONCERN

The Group incurred a loss of HK\$293,727,000 for the year ended 31 December 2019 and as of that date, the Group’s current liabilities exceeded its current assets by HK\$9,197,000 and had net debt of HK\$260,099,000. 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 renewed this facility in early April 2020 with a maturity date on 29 October 2020. Based on the historical experience and the communications with the lender, the directors of the Company consider that the other borrowings would be further renewed upon maturity on 29 October 2020.

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

3 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 (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries and the Group’s interests in associates. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong.

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.

(i) *New and amended standards adopted by the Group*

The Group has applied the following standards and amendments to HKFRSs for the first time for their annual reporting period commencing 1 January 2019:

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

The Group initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise the additional right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. The impacts of which are set out in note 4. The adoption of other amendments to HKFRS does not have significant effect on the financial performance and position of the Group for the current and prior years and/or disclosures set out in these consolidated financial statements.

(ii) *New standards and amendments to HKFRS in issue but not yet effective*

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 new and amendments to HKFRSs 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 HKFRS 3 Definition of a Business

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;
- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

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.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in HKFRS 9 and HKAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments. There are also amendments to HKFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform.

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

4. CHANGES IN ACCOUNTING POLICIES

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“**short-term leases**”) and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. 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 applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. *Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The incremental borrowing rates used for determination of the present value of the remaining lease payments were ranged from 9% to 10%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK\$'000
Operating lease commitments at 31 December 2018	<u>6,332</u>
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	<u>(2,587)</u>
	3,745
Less: total future interest expenses	<u>(363)</u>
Total lease liabilities recognised at 1 January 2019	<u>3,382</u>
Analysed as	
Current	1,491
Non-current	<u>1,891</u>
	<u>3,382</u>

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's 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 HK\$'000	Impact on adoptions of HKFRS 16 HK\$'000	Carrying amount under HKFRS 16 at 1 January 2019 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	–	112,438	112,438
Long-term deposits and prepayments	21,436	(17,826)	3,610
Total non-current assets	<u>1,315,931</u>	<u>13,865</u>	<u>1,329,796</u>
Prepaid land lease payments	2,248	(2,248)	–
Trade and other receivables	372,394	(8,235)	364,159
Current assets	<u>832,892</u>	<u>(10,483)</u>	<u>822,409</u>
Total assets	<u>2,148,823</u>	<u>3,382</u>	<u>2,152,205</u>
Lease liabilities (current)	–	1,491	1,491
Current liabilities	<u>203,526</u>	<u>1,491</u>	<u>205,017</u>
Lease liabilities (non-current)	–	1,891	1,891
Total non-current liabilities	<u>513,382</u>	<u>1,891</u>	<u>515,273</u>
Total liabilities	<u>716,908</u>	<u>3,382</u>	<u>720,290</u>

c. *Impact on the financial result, segment results and cash flows of the Group*

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the amortisation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term.

d. *Lessor accounting*

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements in this regard.

5 REVENUE AND SEGMENT REPORTING

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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	46,848	26,854
– Provision of “Cloud” maintenance services	–	4,370
	<u>60,822</u>	<u>158,406</u>

(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 two principal geographical areas – the People’s Republic of China (excluding Hong Kong) (the “**PRC**”) and Hong Kong.

Information about the Group’s revenue from external customers is presented based on the location at which the goods delivered or the services 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
PRC	46,848	46,153	543,425	417,181
Hong Kong	13,974	112,253	709	158
	60,822	158,406	544,134	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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer 1	N/A [#]	78,140
Customer 2	7,311	26,904
Customer 3	N/A [#]	26,052
Customer 4	23,563	N/A [#]
Customer 5	11,502	N/A [#]
Customer 6	6,663	N/A [#]
	<u>6,663</u>	<u> </u>

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

6 OTHER INCOME

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
From continuing operations		
Government grants	3,612	2,057
Consultancy service income	1,636	–
Dividend income from equity instruments at FVOCI	–	549
Sales of scrap materials	471	–
Sundry income	3,222	3,410
	<u>8,941</u>	<u> </u>
	<u>8,941</u>	<u>6,016</u>

7 OTHER GAINS, NET

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
From continuing operations		
Exchange loss, net	(1,231)	(423)
Loss on disposal of plant and equipment	(25)	(2,342)
Gain on deemed disposal of subsidiaries	–	34,359
Gain on deemed partial disposal of associates	5,987	–
Gain on deregistration of subsidiaries	93	–
	<u>4,824</u>	<u> </u>
	<u>4,824</u>	<u>31,594</u>

8 OPERATING LOSS

Operating loss has been arrived at after charging:

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
From continuing operations		
Employee benefit expenses	95,453	153,471
Cost of inventories sold	48,056	137,810
Cost of services	2,953	1,753
Amortisation of intangible assets	5,043	6,147
Amortisation of prepaid land lease payments	–	2,341
Amortisation of right-of-use assets	11,233	–
Auditor's remuneration		
– Audit services for the year	1,792	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	11,052	–
Impairment loss on trade receivables	32,595	107,513
(Reversal of impairment loss)/impairment loss on contract assets	(329)	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	–
Impairment loss on investment in associates	38,767	–

9 FINANCE COSTS, NET

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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	(33,416)	(29,764)
	(33,570)	(29,764)
Amounts capitalised	10,947	6,072
	(22,623)	(23,692)
Finance costs, net	(21,283)	(19,257)

10 INCOME TAX EXPENSE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
From continuing operations		
Current income tax		
PRC Corporate Income Tax		
– Under-provision in prior years	–	3,452
	–	–
Deferred income tax	–	–
	–	3,452
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 with High and New Technology Enterprise Certificate that is subject to a reduced preferential CIT rate of 15% for 3 years from 2016 to 2019 according to the applicable CIT Law. Such PRC subsidiary had successfully renewed its High and New Technology Enterprise Certificate to 2022.

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).

11 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).

12 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 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Loss for the year attributable to owners of the Company	(294,436)	(457,609)
Add: Loss for the year from discontinued operation	319	32,391
	<hr/>	<hr/>
Loss for the purpose of basic and diluted loss per share from continuing operations	(294,117)	(425,218)
	<hr/>	<hr/>
	2019 <i>'000</i>	2018 <i>'000</i>
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	–	–
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted loss per share	6,156,929	6,156,929
	<hr/>	<hr/>

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 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Loss for the year attributable to owners of the Company	(294,436)	(457,609)

For the number of share used in the computation of basic and diluted loss per share please refer to note 12(a).

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.

(c) From discontinued operation

Basic and diluted loss per share from the discontinued operation is HK0.005 cents (2018: basic and diluted loss per share from the discontinued operation of HK0.526 cents), based on the loss for the year attributable to owners of the Company from the discontinued operation of approximately HK\$319,000 (2018: loss of approximately HK\$32,391,000) and the weighted average number of 6,156,929,000 shares (2018: 6,156,929,000 shares).

The computations 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.

13 TRADE AND OTHER RECEIVABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables	330,492	370,644
Less: allowance for expected credit loss	(57,600)	(25,788)
Trade receivables, net	272,892	344,856
Deposits and other receivables	3,326	3,341
Interest receivables	–	3,636
Prepayments to suppliers	13,477	16,051
Rental prepayments	4,603	32,105
Value-added tax and other tax recoverable	11,773	–
	306,071	399,989
Less: impairment of prepayment and doubtful receivables	–	(6,159)
	306,071	393,830
Less: non-current portion	(1,118)	(21,436)
	304,953	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 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
0 to 90 days	171,730	120,593
91 to 180 days	77	11,650
181 to 365 days	35,549	25,617
1 to 2 years	13,625	84,791
2 to 3 years	43,135	102,205
Over 3 years	8,776	–
	<u>272,892</u>	<u>344,856</u>

14 TRADE AND OTHER PAYABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade payables	22,127	25,927
Accrued employee benefits	12,240	16,420
Value-added tax and other tax payables	6,693	15,018
Other payables and accruals	34,131	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
	<u>182,166</u>	<u>141,139</u>

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
0 to 90 days	6,869	4,057
Over 90 days	15,258	21,870
	<u>22,127</u>	<u>25,927</u>

15 BANK AND OTHER BORROWINGS

As 31 December 2019, the bank and other borrowings were as follows:

	Notes	2019			2018		
		Current HK\$'000	Non-Current HK\$'000	Total HK\$'000	Current HK\$'000	Non-Current HK\$'000	Total HK\$'000
Bank borrowings	(a)	11,175	157,980	169,155	22,772	102,097	124,869
Other borrowings	(b)	335,250	–	335,250	–	341,580	341,580
Total		<u>346,425</u>	<u>157,980</u>	<u>504,405</u>	<u>22,772</u>	<u>443,677</u>	<u>466,449</u>

As 31 December 2019, the Group's borrowings were repayable as follows:

	Bank borrowings		Other borrowings	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Within 1 year	11,175	22,772	335,250	–
Between 1 and 2 years	11,175	22,772	–	341,580
Between 2 and 5 years	67,050	79,325	–	–
Over 5 years	79,755	–	–	–
	<u>169,155</u>	<u>124,869</u>	<u>335,250</u>	<u>341,580</u>

Notes:

(a) Bank borrowings

As at 31 December 2019, the bank borrowings carried interest at the floating rates from 6.7% to 7.4% per annum. The bank borrowings were secured by the right-of-use assets and the construction-in-progress amounted to HK\$79,251,000 and HK\$363,659,000, respectively, entire equity interest in one of the Company's subsidiary and were guaranteed by the Company and a company controlled by Dr. Liu R.

As at 31 December 2018, the bank borrowings carried interest at the floating rates from 6.7% to 7.4% per annum. 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 were guaranteed by the Company 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: HK\$398,510,000), of which HK\$147,031,000 (2018: HK\$273,641,000) were unutilised.

(b) Other borrowings

Other borrowings carried interest at a fixed rate of 6.5% per annum (2018: 6.5%). The other borrowings are secured by the Group's investment in Kuang-Chi Technologies Co., Ltd. classified as financial assets at FVOCI with a carrying amount of HK\$731,390,000 (2018: HK\$806,282,000) and guaranteed by the Company's shareholders and a company which is controlled by Dr. Liu R.

The other borrowings were due for repayment on 6 April 2020. The Group renewed the other borrowings in April 2020 with a maturity date on 29 October 2020.

MATERIAL DIFFERENCES BETWEEN UNAUDITED AND AUDITED ANNUAL RESULTS

Since financial information contained in the Unaudited Annual Results Announcement was neither audited nor agreed with Crowe (HK) CPA Limited as at the date of their publication and subsequent adjustments have been made to such information, shareholders and potential investors of the Company are advised to pay attention to certain differences between the financial information of the unaudited and audited annual results of the Group. Set forth below are principal details and reasons for the material differences in such financial information in accordance with Rule 13.49(3)(ii)(b) of the Listing Rules.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Audited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>	Difference <i>HK\$'000</i>	<i>Note</i>
Continuing operations				
Revenue	60,822	61,555	(733)	
Cost of sales	<u>(51,009)</u>	<u>(51,370)</u>	361	
Gross profit	9,813	10,185	(372)	
Other income	8,941	9,116	(175)	
Other gains/(losses), net	4,824	(1,139)	5,963	2
Impairment loss on trade receivables	(32,595)	(34,498)	1,903	
(Reversal of impairment loss)/impairment loss on contract assets	329	(216)	545	
Impairment loss on investment in associates	(38,767)	(16,900)	(21,867)	1
Selling and distribution expenses	(23,562)	(23,621)	59	
Research and development expenses	(95,155)	(93,436)	(1,719)	
Administrative expenses	<u>(77,759)</u>	<u>(77,284)</u>	(475)	
Operating loss	(243,931)	(227,793)	(16,138)	
Finance income	1,340	1,340	–	
Finance costs	<u>(22,623)</u>	<u>(22,623)</u>	–	
Finance costs, net	(21,283)	(21,283)	–	
Share of results of associates	<u>(27,900)</u>	<u>(26,215)</u>	(1,685)	

	Audited HK\$'000	Unaudited HK\$'000	Difference HK\$'000	<i>Note</i>
Loss before tax	(293,114)	(275,291)	(17,823)	
Income tax expense	<u>—</u>	<u>—</u>	—	
Loss from continuing operations	(293,114)	(275,291)	(17,823)	3
Loss from discontinued operation	<u>(613)</u>	<u>(613)</u>	—	
Loss for the year	<u>(293,727)</u>	<u>(275,904)</u>	(17,823)	
(Loss)/profit for the year attributable to:				
Owners of the Company	(294,436)	(275,467)	(18,969)	
Non-controlling interests	<u>709</u>	<u>(437)</u>	1,146	
	<u>(293,727)</u>	<u>(275,904)</u>	(17,823)	
(Loss)/profit for the year from continuing operations attributable to:				
Owners of the Company	(294,117)	(275,148)	(18,969)	
Non-controlling interests	<u>1,003</u>	<u>(143)</u>	1,146	
	<u>(293,114)</u>	<u>(275,291)</u>	(17,823)	
Loss for the year from discontinued operation attributable to:				
Owners of the Company	(319)	(319)	—	
Non-controlling interests	<u>(294)</u>	<u>(294)</u>	—	
	<u>(613)</u>	<u>(613)</u>	—	
Loss per share				
From continuing and discontinued operations				
Basic (HK cents per share)	(4.78)	(4.47)	(0.31)	
Diluted (HK cents per share)	(4.78)	(4.47)	(0.31)	
From continuing operations				
Basic (HK cents per share)	(4.78)	(4.47)	(0.31)	
Diluted (HK cents per share)	<u>(4.78)</u>	<u>(4.47)</u>	(0.31)	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Audited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>	Difference <i>HK\$'000</i>	<i>Note</i>
Loss for the year	(293,727)	(275,904)	(17,823)	3
Other comprehensive loss				
<i>Items that may be reclassified to profit or loss:</i>				
Release of reserve upon deregistration of subsidiaries	(93)	93	(186)	
Exchange differences on translation of foreign operations	<u>(14,388)</u>	<u>(13,507)</u>	(881)	
	<u>(14,481)</u>	<u>(13,414)</u>	(1,067)	
<i>Items that will not be subsequent reclassified to profit or loss:</i>				
Changes in fair value of financial assets at fair value through other comprehensive income	(84,328)	(58,675)	(25,653)	4
Income tax relating to fair value change of financial assets through other comprehensive income	<u>8,993</u>	<u>8,993</u>	–	
	<u>(75,335)</u>	<u>(49,682)</u>	(25,653)	
Other comprehensive loss, net of tax	<u>(89,816)</u>	<u>(63,096)</u>	(26,720)	
Total comprehensive loss for the year	<u>(383,543)</u>	<u>(339,000)</u>	(44,543)	5

	Audited HK\$'000	Unaudited HK\$'000	Difference HK\$'000	<i>Note</i>
Total comprehensive income/(loss) for the year attributable to:				
Owners of the Company	(383,729)	(338,040)	(45,689)	
Non-controlling interests	<u>186</u>	<u>(960)</u>	1,146	
	<u>(383,543)</u>	<u>(339,000)</u>	(44,543)	
Total comprehensive loss attributable to owners of the Company arising from:				
Continuing operations	(382,843)	(337,154)	(45,689)	
Discontinued operation	<u>(886)</u>	<u>(886)</u>	–	
	<u>(383,729)</u>	<u>(338,040)</u>	(45,689)	
Total comprehensive income/(loss) attributable to the non-controlling interests arising from:				
Continuing operations	1,003	(143)	1,146	
Discontinued operation	<u>(817)</u>	<u>(817)</u>	–	
	<u>186</u>	<u>(960)</u>	1,146	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Audited	Unaudited	Difference	<i>Note</i>
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	380,264	377,175	3,089	
Intangible assets and goodwill	5,023	5,023	–	
Investments in associates	–	26,307	(26,307)	6
Financial assets at fair value through other comprehensive income	731,390	748,990	(17,600)	7
Right-of-use assets	157,729	161,171	(3,442)	
Long-term deposits and prepayments	<u>1,118</u>	<u>1,118</u>	–	
Total non-current assets	<u>1,275,524</u>	<u>1,319,784</u>	(44,260)	
CURRENT ASSETS				
Inventories	1,406	1,406	–	
Contract assets	14,281	14,524	(243)	
Trade and other receivables	304,953	302,589	2,364	
Pledged bank deposits	193	193	–	
Cash and cash equivalents	<u>245,879</u>	<u>245,879</u>	–	
Total current assets	<u>566,712</u>	<u>564,591</u>	2,121	
Total assets	<u>1,842,236</u>	<u>1,884,375</u>	(42,139)	8
EQUITY				
Share capital	61,569	61,569	–	
Other reserves	1,421,209	1,439,426	(18,217)	
Accumulated losses	<u>(458,702)</u>	<u>(442,190)</u>	(16,512)	
Equity attributable to owners of the Company	1,024,076	1,058,805	(34,729)	
Non-controlling interests	<u>24,296</u>	<u>33,150</u>	(8,854)	
Total equity	<u>1,048,372</u>	<u>1,091,955</u>	(43,583)	

	Audited <i>HKD'000</i>	Unaudited <i>HKD'000</i>	Difference <i>HKD'000</i>	<i>Note</i>
LIABILITIES				
NON-CURRENT LIABILITIES				
Lease liabilities	554	478	76	
Bank and other borrowings	157,980	157,980	–	
Deferred income tax liabilities	59,421	59,421	–	
Total non-current liabilities	<u>217,955</u>	<u>217,879</u>	76	
CURRENT LIABILITIES				
Trade and other payables	182,166	180,928	1,238	
Contract liabilities	7,872	7,872	–	
Lease liabilities	1,212	1,082	130	
Bank and other borrowings	346,425	346,425	–	
Deferred government grants	26,004	26,004	–	
Income tax payable	12,230	12,230	–	
Total current liabilities	<u>575,909</u>	<u>574,541</u>	1,368	
Total liabilities	<u>793,864</u>	<u>792,420</u>	1,444	
Total equity and liabilities	<u>1,842,236</u>	<u>1,884,375</u>	(42,139)	

Notes:

1. An increase in impairment loss of investments in associates of approximately HK\$21,867,000 was due to the finalization of valuation on the recoverable amount of investments in associates.
2. An increase in other net gains of approximately HK\$5,963,000 was mainly due to the finalization of calculation of gains on deemed partial disposal of associates.
3. An increase in loss for the year of approximately HK\$17,823,000 was mainly due to the reasons as stated in Notes 1 & 2 above.
4. An increase in fair value loss on financial assets at fair value through other comprehensive income of approximately HK\$25,653,000 was due to the finalization of valuation on the fair values of financial assets.
5. An increase in total comprehensive loss for the year of approximately HK\$44,543,000 was mainly due to the reasons as stated in Notes 1, 2 & 4.

6. A decrease in the investments in associates of approximately HK\$26,307,000 was mainly due to the finalization of the valuation on the recoverable amount of investments in associates.
7. A decrease in the financial assets at fair value through other comprehensive income of approximately HK\$17,600,000 was due to the finalization of valuation on the fair values of financial assets.
8. A decrease in total assets of approximately HK\$42,139,000 was mainly due to the reasons as stated in Notes 6 & 7.

Save as disclosed in this announcement and the corresponding adjustments in total, percentages, ratios and comparative figures related to the above material differences, all other information contained in the Unaudited Results Announcement had no material changes.

OTHER INFORMATION

Impairment losses on trade receivables and contract assets – The Chengdu Customer

The Group entered into a contract (the “**Procurement Agreement**”) with the Chengdu Customer in June 2017 in relation to the construction of an intelligent community system (“**Chengdu Cloud Product**”). The Chengdu Cloud Product was delivered to the Chengdu Customer in 2017 and 2018, and RMB113.1 million (equivalent to HK\$131.1 million) in total has been recognised as revenue. The carrying amount before impairment of trade receivables from the Chengdu Customer under the contract as at 31 December 2019 was approximately RMB87.2 million (equivalent to HK\$97.4 million).

Since the end of 2018, the Group had been continuously making regular contacts with the Chengdu Customer for collection of the outstanding payments and received positive feedback from the Chengdu Customer. From March 2019 to the end of December 2019, the project team held several meetings and communications with the Chengdu Customer to demonstrate and report to the Chengdu Customer the operation of the delivered Chengdu Cloud Product and communicate on the payment plan. Based on the communication between the team and the Chengdu Customer, the Chengdu Customer has completed the application for approval of the payment and has been preparing for the payment. It is expected that approximately RMB45.0 million (equivalent to HK\$50.3 million) will be paid by the end of June 2020. However, as the Chengdu Customer has not started the process for the payment of the remaining amount and PRC economic condition is on downturn, the management expects that the remaining amount will not be recovered in the short term. The management will continue to follow up on the outstanding amount and the recovery thereof. Based on the Company’s credit policy, an expected credit loss of RMB42.6 million (equivalent to HK\$47.6 million) was made on the outstanding trade receivables due by the Chengdu Customer.

PROVISION FOR IMPAIRMENT OF STRATEGIC INVESTMENTS

As indicated by the financial data as of 31 December 2019, Agent Video Intelligence Ltd. (“AVI”) and SkyX Limited (“SkyX”), in which the Group made strategic investments, all suffered from losses to varying degrees. During the year ended 31 December 2019, “AVI” suffered from loss of key R&D personnel, severe delay in R&D activities and lower than expected performance of new products, and intensified market competition environment; “SkyX” encountered difficulties in R&D activities and such pilot projects had not been successfully launched to the market, and had not been able to achieve the planned progress and milestones were missed. Therefore, taking into consideration various factors, the management estimates that “AVI” and “SkyX” will continue to incur losses and the investment cost is difficult to recover, and as such decides to make corresponding provisions for impairment.

FAIR VALUE LOSS OF FINANCIAL ASSETS

During the year ended 31 December 2019, Gilo Industries Group Limited (“Gilo”), the Group’s unlisted equity investment, had disputes with its major key customer and transaction between them was temporarily suspended. The suspension of the transaction and deterioration of customer relationship had negative impact on the financial performance of Gilo, and the fair value of Gilo was reduced to zero.

THE AUDIT COMMITTEE AND REVIEW OF 2019 RESULTS ANNOUNCEMENT

The Audit Committee has reviewed and discussed the audited annual results for the year ended 31 December 2019. The figures in respect of the Group’s consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by Crowe (HK) CPA Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Crowe (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Crowe (HK) CPA Limited on this announcement.

EXTRACT FROM INDEPENDENT AUDITOR’S REPORT

The following is an extract of the independent auditor’s report on the Group’s audited consolidated financial statements for the year ended 31 December 2019. The report includes an emphasis of matter, without qualification.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material uncertainty related to going concern

We draw attention to note 2 to the consolidated financial statements, which indicates that the Group incurred a loss of HK\$293,727,000 during the year ended 31 December 2019 and as of that date, the Group's current liabilities exceeded its current assets by HK\$9,197,000 and had net debt of HK\$260,099,000. These conditions, along with other matters as set forth in note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

Hong Kong, 7 May 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.