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KUANGCHI SCIENCE LIMITED
光啟科學有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the "Board") of KuangChi Science Limited (the "Company") would like to announce the audited consolidated results of the Company and its subsidiaries for the year ended 31 December 2018 together with the comparative figures for the same period in 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 HK$'000	2017 HK$'000 (Restated)
Continuing operations			
Revenue	4	**158,406**	306,192
Cost of sales		**(139,563)**	(176,551)
Gross profit		**18,843**	129,641
Other income	5	**6,016**	69,854
Other gains, net	6	**31,594**	576,118
Impairment loss of intangible assets		**–**	(110,364)
Impairment loss on trade receivables		**(107,513)**	(23,993)
Impairment loss on contract assets		**(7,884)**	–
Impairment loss on deposit for acquisition of plant and equipment		**(35,565)**	–
Selling and distribution expenses		**(44,189)**	(53,304)
Research and development expenses		**(150,579)**	(126,834)
Administrative expenses		**(114,121)**	(134,988)
Operating (loss)/profit		**(403,398)**	326,130
Finance income		**4,435**	13,099
Finance costs		**(23,692)**	(21,370)
Finance costs, net	8	**(19,257)**	(8,271)
Share of results of associates		**(7,340)**	(25,455)
Impairment loss recognised in respect of an investment in an associate		**–**	(8,933)
(Loss)/profit before tax		**(429,995)**	283,471
Income tax expense	9	**(3,452)**	(99,225)
(Loss)/profit from continuing operations		**(433,447)**	184,246
Loss from discontinued operation		**(64,169)**	(250,858)
Loss for the year		**(497,616)**	(66,612)
(Loss)/profit for the year from continuing operations attributable to:			
Owners of the Company		**(425,218)**	196,522
Non-controlling interests		**(8,229)**	(12,276)
		(433,447)	184,246

	Note	2018 HK$'000	2017 HK$'000 (Restated)
Loss for the year from discontinued operation attributable to:			
Owners of the Company		**(32,391)**	(130,471)
Non-controlling interests		**(31,778)**	(120,387)
		(64,169)	(250,858)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(457,609)**	66,051
Non-controlling interests		**(40,007)**	(132,663)
		(497,616)	(66,612)
(Loss)/earnings per share			
From continuing and discontinued operations			
Basic (HK cents per share)	*11*	**(7.43)**	1.08
Diluted (HK cents per share)	*11*	**(7.43)**	1.08
From continuing operations			
Basic (HK cents per share)	*11*	**(6.91)**	3.22
Diluted (HK cents per share)	*11*	**(6.91)**	3.20

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Loss for the year	**(497,616)**	(66,612)
Other comprehensive loss		
Items that may be reclassified to profit or loss:		
Changes in fair value of available-for-sale financial assets	**–**	(427,108)
Income tax relating to fair value change of available-for-sale financial assets	**–**	64,067
Release of reserve upon deemed disposal of a subsidiary	**205**	–
Exchange differences on translation of foreign operations	**(76,204)**	130,923
	(75,999)	(232,118)
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	**(620,783)**	–
Income tax relating to fair value change of financial assets through other comprehensive income	**81,140**	–
	(539,643)	–
Other comprehensive loss, net of tax	**(615,642)**	(232,118)
Total comprehensive loss for the year	**(1,113,258)**	(298,730)
Total comprehensive loss for the year attributable to:		
Owners of the Company	**(1,075,183)**	(167,956)
Non-controlling interests	**(38,075)**	(130,774)
	(1,113,258)	(298,730)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**304,972**	228,409
Intangible assets and goodwill		**10,184**	15,438
Investments in associates		**61,346**	27,582
Financial assets at fair value through other comprehensive income		**837,246**	–
Available-for-sale financial assets		**–**	1,518,572
Derivative financial assets		**–**	–
Prepaid land lease payments		**80,747**	89,900
Deposits for acquisition of plant and equipment		**–**	23,493
Long-term deposits and prepayments		**21,436**	12,859
Total non-current assets		**1,315,931**	1,916,253
CURRENT ASSETS			
Prepaid land lease payments		**2,248**	–
Inventories		**4,000**	20,472
Contract assets		**14,598**	–
Trade and other receivables	*12*	**372,394**	401,141
Loans receivables		**9,731**	24,224
Income tax recoverable		**–**	3,614
Time deposits		**–**	180,120
Pledged bank deposits		**310**	–
Cash and cash equivalents		**429,611**	787,477
Total current assets		**832,892**	1,417,048
Total assets		**2,148,823**	3,333,301
EQUITY			
Share capital		**61,569**	61,569
Other reserves		**1,549,961**	2,159,252
Retained earnings/(accumulated losses)		**(221,479)**	237,644
Equity attributable to owners of the Company		**1,390,051**	2,458,465
Non-controlling interests		**41,864**	75,584
Total equity		**1,431,915**	2,534,049

	Note	2018 HK$'000	2017 HK$'000
LIABILITIES			
NON-CURRENT LIABILITIES			
Bank and other borrowings		**443,677**	360,955
Deferred income tax liabilities		**69,705**	159,086
Total non-current liabilities		**513,382**	520,041
CURRENT LIABILITIES			
Trade and other payables	*13*	**141,139**	223,935
Contract liabilities		**4,043**	–
Deferred government grants		**22,430**	11,528
Income tax payable		**13,142**	8,510
Bank and other borrowings		**22,772**	35,238
Total current liabilities		**203,526**	279,211
Total liabilities		**716,908**	799,252
Total equity and liabilities		**2,148,823**	3,333,301

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"), available-for-sale financial assets ("AFS") and derivative financial assets, 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) New and amendments to HKFRSs that are mandatorily effective for current year

The Group has applied the following new and amendments to HKFRSs and HKASs for the first time for their annual reporting period commencing 1 January 2018:

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers and related amendments
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfer of investment property
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration

The Group has changed its accounting policies and made adjustments as a result of adopting HKFRS 9 and HKFRS 15, the impacts of which are set out in note 3. The adoption of other amendments to HKFRSs and HKASs 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.

(c) New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after a date to be determined

[3] Effective for annual periods beginning on or after 1 January 2021

[4] 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

[5] 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.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 supersedes HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use while other operating lease payments are presented as operating cash flows.

Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as operating cash flows by the Group, while upfront prepaid lease payments will continue to be presented as investing cash flows in accordance with the nature.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 will not result in changes in classification of these assets since the Group will present right-of-use assets separately at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$4,352,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. 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 applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group has not reassessed whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group has elected the modified retrospective approach for the application of HKFRS 16 as lessee and has recognised the cumulative effect of initial application to opening accumulated profits without restating comparative information.

3 CHANGES IN ACCOUNTING POLICIES

The impact of the adoption of HKFRS 9 and HKFRS 15 on the consolidated financial statements of the Group that have been applied from 1 January 2018 was summarised below. This directors considered that other amendments to HKFRSs and HKASs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

(a) Impact on the consolidated financial statements

Changes in an entity's accounting policies may result in prior year consolidated financial statements to be restated. As explained in note (b) and (c) below, HKFRS 9 and HKFRS 15 were generally adopted without restating comparative information. The reclassifications and the adjustments arising from adoption of these standards are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the opening consolidated statement of financial position on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

	31 December 2017 As originally presented	**Impact on application of HKFRS 9**	**Impact on application of HKFRS 15**	**1 January 2018 As restated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Consolidated statement of financial position (extract)				
Non-current assets				
Financial assets at fair value through other comprehensive income	–	1,518,572	–	1,518,572
Available-for-sale financial assets	1,518,572	(1,518,572)	–	–
Current assets				
Trade and other receivables	401,141	–	(13,329)	387,812
Contract assets	–	–	13,329	13,329
Total assets	3,333,301	–	–	3,333,301
Current liabilities				
Trade and other payables	223,935	–	(9,397)	214,538
Contract liabilities	–	–	9,397	9,397
Total liabilities	799,252	–	–	799,252

(b) HKFRS 9 "Financial Instruments" — Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 "Financial Instruments" from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements.

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), management of the Group has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The effects resulting from this reclassification are as follows:

	Available-for-sale financial assets	**Financial assets at fair value through other comprehensive income**	**Available-for-sale financial assets reserve**	**Financial assets at fair value through other comprehensive income reserve**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Closing balance 31 December 2017, as originally presented	1,518,572	–	363,041	–
Reclassify non-trading equities from available-for-sale financial assets to financial assets at fair value through other comprehensive income	(1,518,572)	1,518,572	(363,041)	363,041
Opening balance as at 1 January 2018 as restated	–	1,518,572	–	363,041

The Group elected to present changes in the fair value of all its equity investments previously classified as available-for-sale financial assets to financial assets at fair value through other comprehensive income as these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, the available-for-sale financial assets with fair value of HK$1,518,572,000 were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income and the related accumulated fair value changes of HK$363,041,000 were reclassified from the available-for-sale financial assets reserve to financial assets at fair value through other comprehensive income reserve on 1 January 2018.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

(ii) Impairment of financial assets

The Group has three types of financial assets that are subject to HKFRS 9's new expected credit loss ("ECL") model:

- Trade receivables
- Contract assets, and
- Other financial assets at amortised cost

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

While cash and cash equivalents and time deposits are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables and contract assets

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

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of revenue from the corresponding customer at each report date and their historical credit losses and are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle the receivables.

Management has closely monitored the credit qualities and the collectability of the trade receivables and contract assets. The adoption of the simplified ECL approach under HKFRS 9 has not resulted in any additional impairment loss for trade receivables and contract assets as at 1 January 2018. Since the customers are primarily local government related entities, the directors of the Company considered the credit risk is not high. As at 31 December 2017, the expected credit loss does not have a material impact to the consolidated financial statements of the Group.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a customer to establish a repayment plan with the Group and to make contractual payments accordingly.

Other financial assets at amortised cost

For other financial assets carried at amortised cost, including other receivables and loan receivables in the consolidated statement of financial position, the ECL is based on the 12-month ECL. It is the portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and considers that the ECL is immaterial. As at 31 December 2017, the ECL is immaterial to the consolidated financial statements of the Group.

(c) HKFRS 15 "Revenue from Contracts with Customers" — Impact of adoption

The Group has adopted HKFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

In summary, the following adjustments were made to the amounts recognised in the consolidated statement of financial position as at date of initial application (1 January 2018):

	HKAS 18 carrying amount as at 31 December 2017, as originally presented	**Reclassification**	**HKFRS 15 carrying amount as at 1 January 2018, as restated**
	HK$'000	*HK$'000*	*HK$'000*
Trade and other receivables	401,141	(13,329)	387,812
Contract assets	–	13,329	13,329
Trade and other payables	223,935	(9,397)	214,538
Contract liabilities	–	9,397	9,397

There was no impact on the Group's retained earnings as at 1 January 2018.

Presentation of assets and liabilities related to contracts with customers

The Group has also changed the presentation of certain amounts in the consolidated statement of financial position to reflect the terminology of HKFRS 15:

- Contract assets recognised in relation to revenue contracts of Cloud, which were previously presented as part of trade and other receivables (HK$13,329,000 as at 1 January 2018).

- Contract liabilities in relation to receipts in advance from customers for a revenue contract of Cloud maintenance services, which was previously included in trade and other payables (HK$9,397,000 as at 1 January 2018).

4 REVENUE AND SEGMENT REPORTING

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

	2018	2017
	HK$'000	*HK$'000*
From continuing operations		
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– Sales of "Cloud"	**14,929**	252,596
– "Cloud" maintenance services	**4,370**	4,941
– Sales of chips	**105,044**	40,412
– Provision of wifi network equipment and installation services	**–**	8,213
– Sales of super intelligent tracking system	**26,854**	–
– Procurement service fee income	**7,209**	–
	158,406	306,162
Revenue from other sources		
Gross rental income from investment property	**–**	30
	158,406	306,192

(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's results.

Geographical information

The Group operate in four principal geographical areas — the People's Republic of China (excluding Hong Kong, Macau and Taiwan) (the "PRC" or "China"), Hong Kong, New Zealand and Canada.

Information about the Group's revenue from external customers is presented based on the location of the goods delivered and services rendered. Information about the Group' non-current assets is presented based on the geographical locations of the assets.

	Revenue from external customers		**Non-current assets***	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**46,153**	265,750	**417,181**	328,944
Hong Kong	**112,253**	40,442	**158**	1,210
New Zealand	**–**	–	**–**	12,060
Canada	**–**	–	**–**	15,956
	158,406	306,192	**417,339**	358,170

* Non-current assets exclude financial instruments, financial assets at fair value through other comprehensive income, available-for-sale financial assets and investments in associates. In 2017, partial long-term deposits and prepayments were also excluded.

Information about major customers

Revenues from customers contributing 10% or more of the total revenue of the Group for the years ended 31 December 2018 and 2017:

	2018	2017
	HK$'000	*HK$'000*
Customer 1	**78,140**	–
Customer 2	**26,904**	–
Customer 3	**26,052**	–
Customer 4	**N/A#**	135,568
Customer 5	**N/A#**	116,197

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

5 OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
From continuing operations		
Government grants	**2,057**	69,378
Dividend income	**549**	–
Sundry income	**3,410**	476
	6,016	69,854

6 OTHER GAINS, NET

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
From continuing operations		
Fair value changes of derivative financial assets	**–**	616,404
Exchange (loss)/gain, net	**(423)**	8,672
Gain on disposal of a subsidiary	**–**	84
Loss on disposal of plant and equipment	**(2,342)**	–
Loss on derecognition of swap right	**–**	(7,674)
Gain/(loss) on deemed disposal of subsidiaries	**34,359**	(18,091)
Impairment on available-for-sale financial assets	**–**	(23,270)
Others	**–**	(7)
	31,594	576,118

7 OPERATING (LOSS)/PROFIT

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

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
From continuing operations		
Employee benefit expenses	**153,471**	189,454
Amortisation of intangible assets	**6,147**	1,296
Amortisation of prepaid land lease payments	**2,341**	2,283
Depreciation of property, plant and equipment	**7,538**	45,256
Operating lease rentals in respect of land and buildings	**27,588**	14,123
Impairment loss on loan receivables	**–**	24,746
Impairment loss on trade receivables	**107,513**	23,993
Impairment loss on contract assets	**7,884**	–
Impairment loss on prepayment and other receivables	**3,420**	5,140
Write off of deposits for acquisition of plant and equipment	**35,565**	–

8 FINANCE COSTS, NET

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
From continuing operations		
Finance income		
Interest income:		
– Short term and time deposits	**2,946**	9,681
– Loans to third parties	**–**	1,677
– Loan to related parties	**1,489**	1,741
	4,435	13,099
Finance costs		
Interest expenses:		
– Bank and other borrowings	**(29,764)**	(27,484)
– Convertible debenture	**–**	(37)
	(29,764)	(27,521)
Amounts capitalised	**6,072**	6,151
Finance costs	**(23,692)**	(21,370)
Finance costs, net	**(19,257)**	(8,271)

9 INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
From continuing operations		
Current income tax		
PRC Corporate Income Tax		
– Current year	**–**	6,511
– Under-provision in prior years	**3,452**	253
	3,452	6,764
Deferred income tax	**–**	92,461
Income tax expenses	**3,452**	99,225

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the year (2017: 16.5%).

PRC subsidiaries are subject to PRC Corporate Income Tax ("CIT") at 25% normally except for a PRC subsidiary established in Qianhai and another PRC subsidiary under High and New Technology Enterprise that are 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 profit for the year ended 31 December 2018 (2017: 28%). Statutory tax in Canada is calculated at a rate of 26.5% of the estimated assessable profit for the year ended 31 December 2018 (2017: 26.5%). No current tax was provided in these jurisdictions for the year ended 31 December 2018 as there were no assessable profit (2017: Nil).

10 DIVIDEND

No dividend was paid, declared or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: Nil).

11 (LOSS)/EARNINGS PER SHARES

For continuing operations

The calculation of the basic and diluted (loss)/earnings per share attributable to the shareholders of the Company is based on the following data:

(Loss)/earnings figures are calculated as follows:

	2018	2017
	HK$'000	*HK$'000*
(Loss)/profit for the year attributable to owners of the Company	**(457,609)**	66,051
Add: Loss for the year from discontinued operation	**32,391**	130,471
(Loss)/profit for the purpose of basic (loss)/earnings per share from continuing operations	**(425,218)**	196,522

	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**6,156,929**	6,110,545
Effect of dilutive potential ordinary shares:		
Share options of the Company	**–**	27,677
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	**6,156,929**	6,138,222

For continuing operations and discontinued operations

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

	2018	2017
	HK$'000	*HK$'000*
(Loss)/earnings		
(Loss)/profit for the year attributable to owners of the Company	**(457,609)**	66,051

For the year ended 31 December 2018

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.

For the year ended 31 December 2017

The share options granted by the Company have potential dilutive effect on the earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options, granted by the Company (collectively forming the denominator for computing the diluted EPS). No adjustment is made to earnings (numerator).

In addition, the preferred shares granted by the Company's non-wholly owned subsidiaries and associates, and the convertible bonds of the subsidiaries could have potential dilutive effect on the earnings per share. During the year ended 31 December 2017, these share options, preferred shares and convertible bonds had anti-dilutive effect to the Company and its subsidiaries and associates.

12 TRADE AND OTHER RECEIVABLES

	2018	**2017**
	HK$'000	*HK$'000*
Trade receivables	**370,644**	358,856
Less: allowance for expected credit loss	**(25,788)**	(24,916)
Trade receivables, net	**344,856**	333,940
Deposits and other receivables	**3,341**	17,893
Interest receivables	**3,636**	4,096
Prepayment for advertising	**–**	5,664
Prepayments to suppliers	**16,051**	38,282
Rental prepayments	**32,105**	19,463
	399,989	419,338
Less: impairment of prepayment and doubtful receivables	**(6,159)**	(5,338)
	393,830	414,000
Less: non-current portion	**(21,436)**	(12,859)
	372,394	401,141

The following is an aging analysis of trade receivables presented based on date of revenue recognition and net of allowance as at 31 December 2018 and 2017:

	2018	2017
	HK$'000	*HK$'000*
Trade receivables		
0-90 days	**120,593**	94,958
91-180 days	**11,650**	31,063
181-365 days	**25,617**	–
1 to 2 years	**84,791**	118,879
2 to 3 years	**102,205**	89,040
	344,856	333,940

The Group did not hold any collateral over these balances (2017: Nil).

13 TRADE AND OTHER PAYABLES

	2018	**2017**
	HK$'000	*HK$'000*
Trade payables	**25,927**	48,661
Receipt in advance	**–**	9,397
Accrued employee benefits	**16,420**	22,192
Other tax payables	**15,018**	94,058
Other payables and accruals	**44,091**	9,449
Consideration payable for acquisition of non-controlling interest	**6,069**	–
Accrued construction fee	**33,614**	40,178
	141,139	223,935

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

	2018	2017
	HK$'000	*HK$'000*
Trade payables		
0-90 days	**4,057**	36,223
Over 90 days	**21,870**	12,438
	25,927	48,661

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

14 COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with the current year's presentation. The Group initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3. Certain comparative figures for the consolidated statement of profit or loss have been restated due to the discontinued operations.

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Review And Prospects

The Company and its subsidiaries are principally engaged in the research and development as well as manufacture of innovative products for future technology businesses, and the provision of other innovative technology service solutions (the "Future Technology Business"). For the year ended 31 December 2018 (the "Period"), total revenue of the Company and its subsidiaries amounted to HK$158,406,000. Net loss was HK$497,616,000, an increase of 6.5 times over the previous year.

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

The Company and its subsidiaries put their focus on the Future Technology Business. They are striving to build future smart cities by developing and integrating different future technologies, including "AI overlay" technology and "future space" technology. These technologies will allow them to provide a comprehensive range of innovative products, services and solutions, thereby enhancing service efficiency, satisfying residents' needs, upgrading living quality and, in particular, solving various problems that are faced by human beings.

In terms of the "AI overlay" technology business, the Company and its subsidiaries followed the national policy trend by independently developing the "Matrix Intelligent Engine" (access to the IntelliSense node to build a "Super Intelligent Tracking System", which was an AI technology product to be applied to the field of urban public security. In particular, the "Super Intelligent Tracking System" was an "AI Overlay Network" built with the application of "AI Overlay Technology", which was primarily used for the urban public security field), which helped upgrade comprehensive social governance and public security intelligence. During the Period, the Company and its subsidiaries solely focused on the principal intelligent business by promoting the practical application of the "Super Intelligent Tracking System" in public security throughout the country. In the eastern part of Shanghai, the Company entered into the first order with the relevant departments in Shanghai for the "Super Intelligent Tracking System", making a breakthrough in the sales. The system was already operating online and functioning during the Period. In the northern part, the Company and its subsidiaries began to fully collaborate with the relevant enterprises and public security authorities in Xiong'an New District during the Period on a plan to promote aggressively the "Super Intelligent Tracking System" project to the local public security business. During the same period, the Company and its subsidiaries entered into a memorandum of cooperation with China Mobile Xiong'an

Information Communication Technology Co., Ltd., and reached a strategic cooperation agreement with China United Network Communications Ltd. and its subsidiaries on intelligent security prevention and control in the core areas of the city. In the western part, following full collaboration and business discussions of the Company and its subsidiaries with the various local branch offices of Chongqing Municipal Public Security Bureau during the Period, the "Super Intelligent Tracking System" project and AI technology were approved by relevant authorities, and preparations were made for various tasks according to relevant requirements during the Period. In the southern part, the Company and its subsidiaries began to collaborate with some regional governments and public security authorities in Guangdong during the period. In August 2018, the "Super Intelligent Tracking System" project was approved as a pilot scheme for a pedestrian street in urban area in Shenzhen. In December 2018, the "Super Intelligent Tracking System" project was initially approved by the Shunde District Government and Shunde Public Security Bureau.

As to the "future space" technology business, the Company and its subsidiaries collected multi-source information such as visible light and infrared by using self-developed aerospace products such as drones ("KC" series and "H" series) and "Cloud". By means of advanced AI algorithms, various target objects were detected accurately and tracked continuously on an automatic and real-time basis, providing a data base for intelligent security. During the Period, the performance of "Cloud" was further optimized, and some "Clouds" were returned to the site for repairs. During the same period, the Company further proceeded with drones for remote inspection of energy facility pipelines and the commercialization of the "SkyX" project, a distance solution to drone automation.

In line with national policy trends, "Matrix Intelligent Engine" contributed to comprehensive social governance and public security intelligence upgrade

Since the new management method from "social management" to "social governance" was proposed at the 18th National Congress of the Communist Party of China, General Secretary Xi further emphasized, in the report of the 19th National Congress of the Communist Party of China, the need for "enhancing security and improving people's living standards, strengthening and innovating social governance, creating a new era for building a commonly governed and shared social governance structure together, and relying on more and better scientific and technological innovation to assure national security". Xi called for "enhancing the socialization of social governance, the rule of law, intelligence and professionalism" to "build effective social governance and a good social order to make the people' sense of gain, sense of happiness and sense of security more substantial, more secure and more sustainable".

AI technology has been distributed in the field of pattern recognition, such as face, speech and semantic recognition. It is similar to a single-point technology. For the first time, the "AI Overlay" technology has changed the pattern of intelligent capabilities from a single-point pattern to a mesh overlay, similar to the evolution of the communications industry from fixed networks to mobile communication networks and to mobile Internet. The emergence of mobile communication overlay networks meets the core target of human communication, allowing anyone to communicate freely any time, anywhere. The "AI Overlay" technology also renders intelligent sensing, calculation, analysis and processing capabilities available any time, anywhere, becoming a new type of infrastructure that truly portrays and predicts the world in a highly digital way to build a more intelligent city and a more efficient society.

The Company and its subsidiaries reacted to the call for building a system for the prevention and control of public security under China's "13th Five-Year Plan" by independently developing the "Matrix Intelligent Engine", an AI product used in the fields of comprehensive governance and public security intelligence. Access to the IntelliSense node builds a "Super Intelligent Tracking System", which is an "AI Overlay Private Network" for the urban public security field created by the application of AI overlay technology. As the core of the whole system, "Matrix Intelligent Engine" has applied cutting-edge technologies such as "photoelectric sensor overlay technology", "radar tracking technology" and "high performance modeling and high concurrent computing technology" which have solved the three major industry problems, i.e. "wide-range global intelligent overlay", "real-time concurrency of massive dynamic targets" and "substantial reduction in unit area overlay and concurrent costs". In particular, the processing, enhancement, recognition and multi-dimensional comprehensive judgment of information such as videos and images are all handled by the "Matrix Intelligent Engine". The front-end intelligent sensing nodes comprise photoelectric radar sensing nodes, Wi-Fi probes, police intelligent helmets, etc. In traditional applications, it is not possible to connect a monitoring system with an intelligence system. However, the "Super Intelligent Tracking System" is able to identify a target with the front-end sensors, then starts to track and identify the judgment, and conducts comprehensive analysis with the back-end intelligence system to form the entire combat system. Front-end video surveillance combined with the "Super Intelligent Tracking System" and the new intelligence system to form a new policing operation that integrates AI, smart sensing and big data applications across the entire combat system. At the China International Social Security Products Expo at the end of October 2018, the Company unveiled the "Super Intelligent Tracking System" which, for the first time in the industry, made possible the real-time tracking of massive moving targets such as people, vehicles and mobile phones, building a multi-dimensional, multi-domain intelligent tracking network.

The management believes the "AI Overlay Network" as a new generation of infrastructure is not only used for public security, but can be used to benefit in many areas such as traffic management, urban governance, education, finance, medical care, commerce and resident services. It is able to comprehensively and effectively raise the efficiency of social governance and industry operations, with enormous application needs and market prospects in the smart city field.

Sole focus on the principal intelligent business by promoting the practical application of "AI Overlay Network" in nationwide public security

"AI Overlay Network" is a new generation of highly intelligent core digital infrastructure. It is a super digital system composed of photoelectric senor overlay and Matrix Intelligent Engine that can holographically map real-time moving targets in cities. AI overlay technology is breakthrough achievement of the Company in military-civilian integrated innovation. Its core technologies comprise radar tracking technology, photoelectric sensor overlay technology, high-performance modeling and high concurrent computing technology. Its core build-up indicator is concurrency per second between overlay area and concurrent capacity. AI overlay has successfully solved the three key technologies and core problems, i.e. wide-range global overlay, real-time concurrency of massive moving targets, and substantial reduction in unit area overlay and concurrent costs by evolving the application of the existing AI technology from "pattern recognition" to overlay technology for "global non-sensing certification", "massive target tracking" and "high-quality big data management", a general trend of creating a high-quality digital world in the intelligent era. The "Super Intelligent Tracking System" is a specialized system using AI overlay technology in the field of public security. The core technology for AI overlay has been included in the "National Key R&D Programme under the 13th Five-Year Plan", and has been employed to undertake key project for "Technical Equipment for Public Security Risk Prevention and Control and Emergency" jointly supported by the Ministry of Public Security and the Ministry of Science and Technology.

In Shanghai, leap-forward development was achieved for the "Super Intelligent Tracking System" project during the Period as a breakthrough was made in market sales. During the Period, the Company entered into a contract for the "Super Intelligent Tracking System" with a security service provider in Shanghai, under which the "Super Intelligent Tracking System" was officially launched online and functioning at the Bund Police Station, making the area become a fully intelligent security defense demonstration area as well as a major platform and window for promoting the "Super Intelligent Tracking System". The system is currently used for identifying and tracking massive targets, and has provided the public security authorities with accurate information and evidence on various cases/matters, delivering intelligent solutions to social governance and urban refined management in the new era. Moreover, the system also gives warning about large-scale flows of moving people for large-scale security activities as it has provided information on detailed regional flows of moving people for security during new year's eve at Shanghai Bund for the second year in a row. Meanwhile, the Company entered into a cooperation framework agreement for the "Super Intelligent Tracking System" project with the Criminal Investigation Corps of the Shanghai Public Security Bureau, pursuit to which the system expanded the advantages of both sides and jointly promoted the development and progress in the field of public security science and technology based on the actual combat requirements for public security.

During the same period, the "Super Intelligent Tracking System" project established interactive communication with relevant work units such as the Shanghai Public Security Bureau. The increasingly mature and growing number of customer channels have established an essential base for the promotion of the "Super Intelligent Tracking System" project in the eastern region, thus increasing the influence of the Company and its products in Shanghai.

In Xiong'an, the Company's "Super Intelligent Tracking System" and artificial intelligence overlay technology were approved after the Company and its subsidiaries fully collaborated with Xiong'an Group Co., Ltd. and its subsidiaries in Xiong'an New District and Xiong'an New District's public security authorities during the Period. By incorporating the establishment of a video network in Xiong'an New District into the build-up of a smart city in Xiong'an New District, the Company played an active role in the overall planning and top-level design for the establishment of the video network in Xiong'an New District; promoted the release of the video standard specifications for the new district; played a dominant role in a pilot scheme for the AI overlay network in Xiong'an New District; and offered products and solutions in relation to the establishment of an urban-level dynamic big data sensor network. With all of these, a world-leading, static-dynamic AI overlay network will be built, which will become a digital infrastructure for smart cities for the future, and which can be extended and promoted nationwide and even globally, offering broad market prospects.

During the same period, the Company entered into a non-legally binding memorandum of cooperation ("MOC") with China Mobile Xiong'an Information Communication Technology Co., Ltd. ("China Mobile Xiong'an Industry Research Institute"), a wholly-owned subsidiary of China Mobile Communications Co., Ltd., pursuant to which China Mobile Xiong'an Industry Research Institute will, based on the information held by the Company, will work together intensively with China Mobile Research Institute in Beijing on the establishment of an innovative system that deeply integrates industry, academia and research, and of an open and shared R&D ecosystem directed at the fields of smart city, AI and next-generation network technology, so as to help build a smart city in Xiong'an New District. The management believes by relying on the favourable geographical location of Xiong'an New District and major strategic development opportunities, the Company's partnership with Xiong'an Industry Research Institute can enhance both business innovation core competence and market competitiveness.

Moreover, the Company and its subsidiaries began to fully collaborate with China Unicom Group and China Unicom System Integration Ltd. in the second quarter of 2018. China Unicom has entered into "Smart City" contracts with the local governments at more than 150 cities (urban areas), pursuant to which the Company and its subsidiaries, as a member of "China Unicom's Industry Alliance for New Smart Cities" and an investor introduced under China Unicom's mixed reform programme, can collaborate with China Unicom Group's government and enterprise department and China Unicom System Integration Ltd. on the promotion of the Company's "Super Intelligent Tracking System" project and related intelligent technologies in China Unicom's key areas across the country. In the fourth quarter of 2018, the Company and its subsidiaries published a joint plan for smart security prevention and control in the core areas of the city, under which they reached a strategic cooperation agreement with China Unicom, pursuant to which China Unicom would give priority to the Company in the procurement of relevant products from the Company for the security scenarios in the core areas of the city.

In the western part, the Company and its subsidiaries reaped initial results following intensive collaboration and business discussions with various local branch offices of the Chongqing Municipal Public Security Bureau during the Period. The Company's "Super Intelligent Tracking System" project and AI technology were approved by the relevant branch offices, and preparations for various tasks were made aggressively in accordance with relevant requirements during the Period. Using the Company's related systems and products as the core for the build-up, the Company participated in the "Project for Technologies for the Prevention of Area Anti-terrorism and Anti-riot at Chongqing North Railway Station" by providing key personnel deployment control, intelligent tracking and other functions. Moreover, the Company's "Prevention of Crowd Crushing and Trampling Alarm System" ("Prevention of Crowd Crushing and Trampling Alarm System" is a customized professional system based on the "Super Intelligent Tracking System" combined with specific scenarios) assures "three-night security" for the Chongqing Liberation Monument. Together with an overall security plan, the system accurately tracks and gives statistics on the number of people in all controlled areas on a real-time basis, controls the flow direction and density of people on a real-time basis, and makes predictions and judgments and gives instructions and interactions on a real-time basis, providing "three-night security" and Spring Festival consolidated security services for the Chongqing Liberation Monument. During the same period, the Company and its subsidiaries collaborated with Chongqing Public Security Science and Technology Research Institute, BOCOM Intelligent Information Technology Co., Ltd. and Guoxin Youe Data Co., Ltd. on reporting to the National Development and Reform Commission a "pilot project for the application of information system integration and sharing in the field of social governance – establishment of a system for the prevention and control of social security information in the new era". The project has been approved by the National Development and Reform Commission, and the joint unit is making a design proposal on the project. Moreover, the Company and its subsidiaries continued to keep full communications with the Criminal Investigation Corps of the Chongqing Public Security Bureau during the Period. The Company's laboratory overall visualization and intelligent build-up proposal on the application of AI technology was approved. The overall proposal is currently put online at an experimental office, where network environment build-up has been completed, servers deployed and communication links tuned. The criminal investigation and on-site intelligent project can be directly used in nationwide criminal investigation and added with intelligent modules based on hardware and software architecture according to different types of policing, so that it can be used in other policing services.

In the southern part, the Company and its subsidiaries began to collaborate with public authorities such as some regional governments of Guangdong Province and the Guangdong Provincial Public Security Department during the Period. In August 2018, the "Super Intelligent Tracking System" project was used as a pilot scheme for a pedestrian street in urban area in Shenzhen. In December 2018, the "Super Intelligent Tracking System" project was initially approved by the Shunde District Government and the Shunde Public Security Bureau. Based on AI overlay technology, the project proposal will digitalize real-time massive moving targets in a city, and upgrade the existing "point-like bayonet-type AI pattern recognition" into an intelligent overlay network that features "global non-sensing certification", "massive target tracking" and "high-quality big data management", thus increasing AI overlay efficiency by 18 times at the same cost, increasing the intelligent concurrent processing capability by 35 times and accounting for only 1/24 of the build-up costs in existing industry solutions. In the southern part, the Company and its subsidiaries will build a new-generation AI overlay technology innovation centre and demonstration base in Shenzhen and Foshan's Shunde for building an AI overlay demonstration network in the Guangdong-Hong Kong-Macau Greater Bay Area.

Self-developed drones, "Clouds" and other aviation products continued to provide accurate detection, offering a data base for intelligent security

With the development of spatial information technology, there is a higher requirement for the security field. The setup of a digital, application-oriented and highly generalized product system will provide technical assurance for intelligent security. The Company and its subsidiaries collect multi-source information such as visible light and infrared with aerospace products such as self-developed drones ("KC" series and "H" series) and "Clouds". By means of cutting-edge image processing technology together with AI algorithm, accurate detection and continuous tracking of multiple types of ground targets can be carried out automatically, on a real-time basis, on an all-weather basis, at different regions and under complex environments.

During the Period, the "Clouds" were improved substantially in terms of wireless communication distance, system capacity, equipment integration capability and system stability, offering a big data base for urban surveillance, ecological monitoring and emergency communication for urban intelligent management. During the Period, some of the "Clouds" were returned to the site as they reached the point of time for repairs.

Under the "SkyX" project, a strategic investment, super-vision, low-cost intelligent patrol solution was successfully developed, ready to enter the commercialization stage

The Company made a strategic investment in SkyX Ltd. ("SkyX"), a Canada-based long-haul industrial drone service provider. SkyX uses a body design with integrated patented fixed-wings and rotary-wings, capable of making vertical taking off and landing as well as long-distance, high-speed patrol flights at a speed of up to 150 kilometers per hour, and of carrying out automatic patrol using AI technology. In August 2018, SkyX received nearly US$9.5 million in financing. Its newly developed BVR AI industrial drone system can offer solutions to low-cost air patrol over large-scale infrastructure facilities such as oil and gas pipelines, power transmission networks and railway tracks with a length of several thousand kilometers on an all-weather, all-terrain and unmanned basis. SkyX is the world's only company in that field to have its BVR AI industrial drone system entered the commercialization stage.

FINANCIAL REVIEW

Revenue and operating performance

The revenue of the Company and its subsidiaries decreased by approximately HK$148 million or 48.4% to approximately HK$158 million for the year ended 31 December 2018 from approximately HK$306 million for the year ended 31 December 2017. Such decrease is mainly caused by a decrease in the revenue generated from the Company and its subsidiaries' "future space" technology products.

The net loss of the Company and its subsidiaries increased by approximately HK$431 million or 647% to approximately HK$497.6 million for the year ended 31 December 2018 from approximately HK$66.6 million for the year ended 31 December 2017. Such increase is primarily attributable to: (i) a significant decrease in the gross profit of the Company and its subsidiaries from approximately HK$130 million for the year ended 31 December 2017 to approximately HK$18.8 million for the year ended 31 December 2018; (ii) the absence of the after-tax gains arising from fair value changes of derivative financial assets for the year ended 31 December 2018 as compared to an amount of HK$524 million for the year ended 31 December 2017 as disclosed in the announcement of the Company dated 14 August 2018; and (iii) an impairment loss on account receivable of approximately HK$108 million for 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 Company and its subsidiaries 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 2018, the Company and its subsidiaries had 420 employees being experts on high and new technology from around the world and approximately 21% of them were with master's degree or above. This has provided a strong talent foundation that in turn strengthened their core competitiveness.

Other results

The Company granted replacement and new share options to directors and employees of the Company and its subsidiaries in 2015, and the relevant share-based payment expenses for the year was approximately HK$8,066,000 (2017: HK$33,188,000).

CAPITAL STRUCTURE

On 30 September 2015, the Board of Company announced that the Company will cancel a total of 67,537,000 share options granted to certain Directors and employees of the Company and its subsidiaries on 26 August 2014 and the Company will conditionally grant 67,537,000 new share options as replacement options to the relevant grantees. On the same day, the Board of the Company further announced that the Company will conditionally grant 70,000,000 new share options to certain Directors and employees of the Company and its subsidiaries under the share option scheme adopted by the Company on 31 July 2012.

No share option scheme was launched for the year ended 31 December 2018. As at 31 December 2018, the balance of issued ordinary shares was 6,156,928,860.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the total shareholders' funds of the Company and its subsidiaries amounted to approximately HK$1,431,915,000 (31 December 2017: HK$2,534,049,000), the total assets of approximately HK$2,148,823,000 (31 December 2017: HK$3,333,301,000) and the total liabilities of approximately HK$716,908,000 (31 December 2017: HK$799,252,000).

As at 31 December 2018, the Company and its subsidiaries had bank balances and cash of approximately HK$429,611,000 (31 December 2017: HK$787,477,000), time deposits of HK$ Nil (31 December 2017: HK$180,120,000) and pledged bank deposits of HK$310,000 (31 December 2017: Nil). The gearing ratio as of 31 December 2018, defined as the percentage of the total interest bearing debt, including bank and other borrowings of approximately HK$466,449,000 (31 December 2017: HK$396,193,000), to net asset value, was approximately 32.58% (31 December 2017: 15.63%).

Most of the assets, liabilities and transactions of the Company and its subsidiaries are primarily denominated in HK$, RMB and US$. The Company and its subsidiaries have not entered into any instruments on the foreign exchange exposure. The Company and its subsidiaries 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 Company and its subsidiaries entered into a subscription agreement with KCT, which listed on the Shenzhen Stock exchange, pursuant to which KCT conditionally agreed to issue, and the Company and its subsidiaries 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 Company and its subsidiaries 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 Company and its subsidiaries 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 Company and its subsidiaries 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 Company and its subsidiaries hold 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 2018, the fair value loss of HK$540,933,000 (2017:427,108,000) was recognised in other comprehensive loss.

EVENT AFTER THE REPORTING YEAR

There was no event after the reporting year.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Company and its subsidiaries had approximately 420 employees. The Company and its subsidiaries provide competitive remuneration packages to employees with the share option scheme and the restricted shares award scheme. The Company and its subsidiaries also provide attractive discretionary bonus payable to those with outstanding performance and contribution to the Company and its subsidiaries.

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.

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

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, ex non-executive Director, Mr. Song Dawei (resigned on 1 August 2018), and two independent non-executive Directors Ms. Cao Xinyi and Dr. Liu Jun, did not attend the annual general meeting held on 30 May 2018, due to other business commitments.

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

During the year ended 31 December 2018, 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 2018, nor had any dividend been proposed for the year ended 31 December 2018 (year ended 31 December 2017: 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 2018.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") comprises three independent non-executive directors of the Company. The Audit Committee has adopted terms of reference which are in line with the CG Code. The Audit Committee has reviewed the Company and its subsidiaries' audited results for the year ended 31 December 2018 and agreed with the accounting treatment adopted. The Audit Committee is satisfied with the Company and its subsidiaries' internal control procedure and financial reporting disclosures.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018. Also, the figures in respect of this results announcement have been compared by the Company's external auditors, Crowe (HK) CPA Limited, to the amounts set out in the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018. 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 results announcement.

PUBLICATION OF THE 2018 ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.kuangchiscience.com), respectively. The Company will dispatch the annual report of the Company for the year ended 31 December 2018 to the shareholders of the Company in due course, which will also be published on the websites of the Company and the Stock Exchange.

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

Hong Kong, 26 March 2019

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 Mr. Dorian Barak; and three independent non-executive directors, namely Dr. Liu Jun, Dr. Wong Kai Kit and Ms. Cao Xinyi.