KUANGCHI SCIENCE LIMITED

Incorporated in Bermuda with limited liability | Stock Code: 439

KUANGCHI 光啟科學

2019 Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Liu Ruopeng *(Chairman)*
Dr. Luan Lin
(Chief Executive Officer & Chief Technology Officer)
Dr. Zhang Yangyang
Dr. Ji Chunlin *(Appointed on 1 February 2020)*
Mr. Dorian Barak *(Resigned on 31 January 2020)*

Non-executive Director

Mr. Li Chiu Ho *(Appointed on 23 March 2020)*

Independent Non-executive Directors

Dr. Liu Jun
Dr. Wong Kai Kit
Mr. Choi Wing Koon *(Appointed on 21 October 2019)*
Ms. Cao Xinyi *(Resigned on 23 July 2019)*

AUDIT COMMITTEE

Mr. Choi Wing Koon *(Chairman)*
Dr. Liu Jun
Dr. Wong Kai Kit

REMUNERATION COMMITTEE

Dr. Wong Kai Kit *(Chairman)*
Dr. Liu Jun
Dr. Zhang Yangyang

NOMINATION COMMITTEE

Dr. Liu Ruopeng *(Chairman)*
Dr. Liu Jun
Dr. Wong Kai Kit

COMPANY SECRETARY

Mr. Cheng Chi Chung Kevin

AUDITOR

Crowe (HK) CPA Limited
Certified Public Accountants

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Bermuda

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Bermuda

PRINCIPAL BANKERS

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

STOCK CODE

439

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW AND PROSPECTS

The Company and its subsidiaries (the "Group") are principally engaged in the research and development as well as manufacture of innovative products for the future technology business, and in the provision of other innovative technology service solutions (the "Future Technology Business"). For the twelve months ended 31 December 2019 (the "Period"), the Group's total revenue amounted to approximately HK$61 million and the net loss was approximately HK$294 million.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Impairment losses on trade receivables and contract assets

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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.

FINANCIAL REVIEW

Revenue and operating performance

The revenue of the Group decreased by approximately HK$97 million or 61.4% to approximately HK$61 million for the year ended 31 December 2019 from approximately HK$158 million for the year ended 31 December 2018. Such decrease is mainly caused by a decrease in the revenue generated from sales of chips.

The net loss of the Group decreased by approximately HK$204 million or 41% to approximately HK$294 million for the year ended 31 December 2019 from approximately HK$498 million for the year ended 31 December 2018. Such decreased is primarily attributable to: (i) the decrease in impairment loss on account receivable, contract assets and deposits for acquisition of plant and equipment; (ii) a significant decrease of approximately HK$112 million in research and development, selling and distribution and administrative expenses compare with the year ended 31 December 2018.

Manpower development

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

CAPITAL STRUCTURE

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

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the total shareholders' funds of the Group amounted to approximately HK$1,048,372,000 (31 December 2018: HK$1,431,915,000), the total assets of approximately HK$1,842,236,000 (31 December 2018: HK$2,148,823,000) and the total liabilities of approximately HK$793,864,000 (31 December 2018: HK$716,908,000).

As at 31 December 2019, the Group had bank balances and cash of approximately HK$245,879,000 (31 December 2018: HK$429,611,000) and pledged bank deposits of HK$193,000 (31 December 2018: HK$310,000). The gearing ratio as of 31 December 2019, defined as the percentage of the total interest bearing debt, including lease liabilities and bank and other borrowings of approximately HK$1,766,000 (31 December 2018: HK$Nil) and HK$504,405,000 (31 December 2018: HK$466,449,000), respectively to net asset value, was approximately 48.28% (31 December 2018: 32.58%).

Most of the assets, liabilities and transactions of the Group are primarily denominated in HK$, RMB and US$. The Group have not entered into any instruments on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

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

On 25 March 2015, the Group entered into a subscription agreement with KCT, which listed on the Shenzhen Stock exchange, pursuant to which KCT conditionally agreed to issue, and the Group conditionally agreed to subscribe for 42,075,736 new shares of KCT at the consideration of RMB300 million (equivalent to approximately HK$345,000,000). On 11 November 2016, the Group obtained the approval from the China Securities Regulatory Commission for the subscription and certain conditions of the subscription agreement have been satisfied. The subscription right is a derivative that measured at fair value through profit or loss. During the year ended 31 December 2016, the Group recognised a gain of HK$1,021,151,000 on the initial recognition of the subscription right of such shares and a loss from changes in fair value of HK$229,913,000. The subscription has been completed and the new shares was listed on the Shenzhen Stock Exchange on 13 February 2017 and was recognised as available-for-sale financial assets on the same day. As at 13 February 2017, the fair value of the derivatives right of shares of KCT amounted to approximately HK$1,419,691,000 and hence the Group recognised a fair value gain of HK$616,404,000 upon the conversion of derivative in the consolidated statement of profit or loss. Subsequent to the completion of subscription on 13 February 2017, the Group held approximately 3.2% of the ordinary shares of KCT issued. The directors of the Company consider the Company has no significant influence over KCT and no right to appoint any director, and hence classified the investment in KCT as AFS investment at HK$1,419,691,000 which is the fair value of KCT as at 13 February 2017. For the year ended 31 December 2019, the fair value loss of HK$59,950,000 (2018: 540,933,000) was recognised in other comprehensive loss.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

EVENT AFTER THE REPORTING YEAR

In early 2020, the Group's operation has been affected by quarantine measures imposed by the local government to contain the COVID-19 outbreak. The Group has been paying close attention to the impact of the situation on its operation and taking all possible and reasonable measures to mitigate and limit the impact on the Group's operation. As the extent to which the COVID-19 outbreak will continue is uncertain, the overall financial effect that the COVID-19 outbreak may have on the Group's businesses and financial results cannot be reliably estimated as at the date of this annual report.

EMPLOYEES AND REMUNERATION POLICY

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

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

Preparation Basis and Scope

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

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

Reporting Period

This Report demonstrates our sustainability initiatives during the reporting period from 1 January 2019 to 31 December 2019.

Contact Information

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

INTRODUCTION

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

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

1. Saving lives by providing relief to disaster-stricken and impoverished areas

2. Improving society by making cities smarter

3. Innovating lifestyles for a better tomorrow

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDERS ENGAGEMENT AND MATERIALITY ASSESSMENT

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

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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

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

Step 1: Identification – Industry Benchmarking

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

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

Step 2: Prioritization – Stakeholder Engagement

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

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

Step 3: Validation – Determining Material Issues

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

As a result of this process carried out in 2019, those important issues to the Group were discussed in this Report.

ENVIRONMENTAL ASPECT

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

ASPECT A1: EMISSIONS

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Air Pollutants Emission

Air pollutants emission control is vital to both environmental protection and health of employees. Emission from the Group's operation complies with the Emission Limits of Air Pollutants (DB44/27-2001) in the PRC. For example, exhaust gas treatment facilities require regular maintenance to secure that they meet the emission standard. Containers for chemicals storage are sealed properly to prevent leakage. Air pollutants emission of the Group mainly came from vehicles. The decrease in air pollutants emission in 2019 was mainly attributable to the decrease in the revenue generated from sale of super intelligent tracking system chip and "cloud" products during the year.

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

Air Pollutants Emission	Unit	2019	2018
Nitrogen oxides (NO_x)	kg	**2.67**	8.94
Sulfur dioxide (SO_2)	kg	**1.47**	1.82
Particulate matter (PM)	kg	**0.94**	1.38

Greenhouse Gas (GHG) Emission

Climate change is gradually concerned by the public as it does affect our daily life. GHG is considered as one of the major contributors to the climate change. The Group managed the carbon footprint by minimising the energy and water consumptions in its operation as these activities cause significant emission of GHG. The Group had adopted energy saving policy (as mentioned in the section Use of Resources) in order to reduce the carbon footprint. During the reporting period, our GHG emission scopes 1 and 2 mainly came from mobile combustion and purchased electricity. The decrease in GHG emission in 2019 was attributable to the decrease in the revenue generated from sale of super intelligent tracking system chip and "cloud" products during the year.

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

GHG Emission[1]	Unit	2019	2018
Scope 1[2]	tonnes of CO_2-e	**43.02**	64.46
Scope 2[3]	tonnes of CO_2-e	**97.16**	266.06
Total	tonnes of CO_2-e	**140.18**	330.52
GHG emission intensity	tonnes of CO_2-e/m^2	**PRC: 0.26** **HK: N/A**	PRC: 0.05 HK: 0.16

1 The calculation of the greenhouse gas emission is based on the "Corporate Accounting and Reporting Standard" from greenhouse gas protocol.
2 Scope 1: Direct emission from sources that are owned or controlled by the Group.
3 Scope 2: Indirect emissions from the generation of purchased electricity consumed by the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Hazardous and Non-hazardous Wastes

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

The wastes generated by the Group during the reporting period are as follows:

Wastes disposal	**Unit**	**2019**	2018
Non-hazardous wastes produced	tonnes	–	0.82
Non-hazardous wastes produced intensity	tonnes/m^2	–	PRC: 0.0025

Noise

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

ASPECT A2: USE OF RESOURCES

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

Energy Consumption

Generally, trainings or activities are offered to employees to raise their awareness on energy saving. Energy efficiency is one of the key considerations for procurement department when purchasing machineries. The Group also establishes and implements policy of Office Environment Management Regulation to provide guidelines for employee to save energy in office. The key measures to reduce the energy consumption in office include:

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Energy usage was recorded by responsible department and analysis was carried out to compare the usage with the same month of the previous year. If there was any substantial increase in the energy consumption, The Group will analyze the causes to rectify the problems promptly. During the reporting period, the decrease in energy consumption was due to the decrease in the revenue generated from sale of super intelligent tracking system chip and "cloud" products.

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

Energy Consumption	**Unit**	**2019**	2018
Purchased electricity	kWh in '000s	**144.46**	394.43
Petrol	kWh in '000s	**175.30**	252.24
Total	kWh in '000s	**319.76**	646.67
Energy consumption intensity	kWh in '000s/m^2	**PRC: 0.59** **HK: N/A**	PRC: 0.10 HK: 0.47

Water Consumption

Water is another important resource. The water consumption data in Hong Kong is not presented in 2019 due to inactive operation of Hong Kong office. Hence, it was not feasible for the Group to provide water consumption data for these subsidiaries in 2019 as there was no sub-metering to record water usage. In spite of this, the Group strived to conserve water and reduce its usage, the Group reminded employees to turn off the water tap when it was not in use and did not leave it running. Regular maintenance was also carried out for pipes to prevent leakage so as to save water resource. The decrease in water consumption in 2019 was attributable to the Group's effort in conserving water with aforementioned water-saving strategies being implemented during the year.

The water consumption during the reporting period is as follow:

Water Consumption	**Unit**	**2019**	2018
Water consumption	m^3	**1,956.64**	3,911.31
Water consumption intensity	m^3/m^2	**3.59**	1.68

Wastewater

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

ASPECT A3: THE ENVIRONMENT AND NATURAL RESOURCES

The Group's Environmental Policy has outlined its environmental plan, which allows us to identify risks that are related to environment. By monitoring these risks, we can develop methods and emergency procedures if any adverse effect on environment is noticed. Moreover, the Group will continue to implement environment-friendly practices in the Group's operation in order to enhance environmental sustainability.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL ASPECT
EMPLOYMENT AND LABOUR PRACTICES

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

Employment

The Group expects that all employees and contractors treat one another with respect and dignity. In the Group's policy, it has covered issues relating to compensation and dismissal, recruitment and promotion, working hours, rest period, equal opportunity, diversity anti-discrimination and other benefits and welfare. The Group strictly abide by relevant laws and regulations, such as the Labour Law of the PRC, the Labour Contract Law of the PRC and the Employment Ordinance of Hong Kong (chapter 5 of the laws of Hong Kong). In 2019, the Group was not subject to any punishment by the government and was not involved in any lawsuit relating to employment.

Equal Opportunity

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

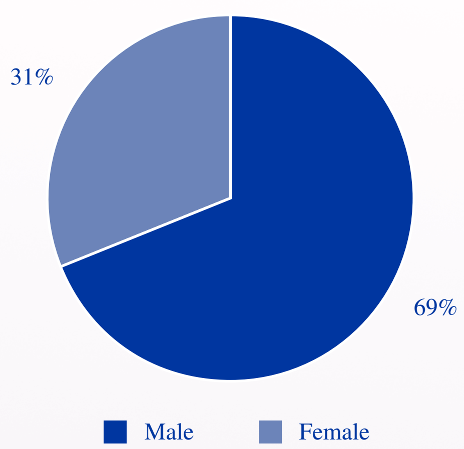
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Harassment-Free Workplace

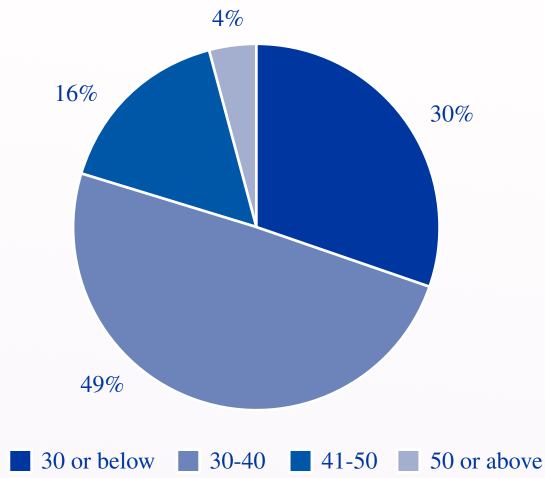
All employees are committed to maintaining a professional and harassment-free working environment – places where employees act with respect for one another and for those with whom we do business. Behaviours such as unwelcome conduct and sexual harassment are strictly prohibited.

At the end of the reporting period, the employees of the Group mainly located in the PRC. Below is the employee breakdown by gender, age group.

Gender



Age group



ASPECT B2: HEALTH AND SAFETY

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

1. Employees must receive safety training before performing duties

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

In 2019, the Group was not subject to any punishment by the government and were not involved in any lawsuit related to health and safety.

ASPECT B3: DEVELOPMENT AND TRAINING

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

ASPECT B4: LABOUR STANDARDS

The Group respects the right of employee and maintain a high labour standard. The Group is strictly in compliance with the Labour Contract Law of the PRC and the Employment Ordinance of Hong Kong. The Group does not tolerate any form of forced child labour and forced labour. In the Group's recruitment guideline, candidate who aged under 18 is not allowed to work in the company. In 2019, the Group was not subject to any punishment by the government and was not involved in any lawsuit relating to child and forced labour.

OPERATING PRACTICES
ASPECT B5: SUPPLY CHAIN MANAGEMENT

A long-term cooperation between the Group and its suppliers is important to the operation of the business. The Group's Procurement Management Regulation provides guideline on supply chain management. The choice of suppliers is based on the performance on different areas, including but not limited to compliance, environmental, health and safety management and quality management as stipulated in our internal Supplier Evaluation and Approval Standard. Continuous supplier assessments and on-site audits are carried out to evaluate the performance of our existing suppliers. We always seek opportunities to improve the product quality by conducting conference meetings to discuss product improvement and environmental sustainability improvement. The Group has ISO9001 quality management system demonstrating our commitment to quality and our capability to satisfy customer's requirements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ASPECT B6: PRODUCT RESPONSIBILITY

The Group is a world leader in future technology, as well as the owner of the relevant core intellectual properties. The Group has a world-class research and development team that integrates various advanced technologies in electronic information, mathematics and statistics, and other disciplines and has 828 patent applications. Product responsibility is a key consideration across all aspects of the development of the Group's products including design, manufacturing, training and operations. The Group complies with laws and regulations related to product responsibility in the regions where it operates, for instance, Product Quality Law of the PRC and Trademark Law of the PRC. In 2019, the Group was not subject to any punishment by the government and was not involved in any lawsuit relating to product responsibility.

Safety and Quality Management

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

Complaint Handling

Once a compliant is received by telephone, email or letter, it must be reported to the management. Investigation is carried out to identify the reason of the compliant. Responsible department is required to formulate long term strategy and the result will be reviewed by quality assurance department.

Intellectual Property Protection

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

Customer Data Protection and Privacy

Data is our valuable asset. The Group has developed a policy of Information Management System to provide guidance to staff on control and usage of company data and to restrict access or use where necessary to protect the interests of the Group. Data is classified into different levels according to the confidentiality as public, internal, and restricted/confidential.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ASPECT B7: ANTI-CORRUPTION

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

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

To minimise the possibility of corruption, the Group's Gift Policy defines the meaning of gift and clarifies the rules in relation to giving and receiving gifts. The Group's Whistle Blower Policy encourages Board members, staff and others to report suspected or actual occurrences of illegal, unethical or inappropriate events (behaviours or practices) without retribution.

In 2019, the Group was not subject to any punishment by the government and were not involved in any lawsuit related bribery, extortion, fraud and money laundering.

COMMUNITY
ASPECT B8: COMMUNITY INVESTMENT

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

Community Involvement

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING INDEX

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KPI A1.1	The types of emissions and respective emissions data	"Emissions – Air Pollutants Emission"	12
KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity	"Emissions – Greenhouse Gas Emission"	12
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity	"Emissions – Hazardous and Non-hazardous Wastes"	13
KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity	"Emissions – Hazardous and Non-hazardous Wastes"	13
KPI A1.5	Description of measures to mitigate emissions and results achieved	"Emissions – Air Pollutants Emission"	11
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	"Emissions – Hazardous and Non-hazardous Wastes" "Emissions – Wastewater"	13
A2: Use of Resources			
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KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	"Use of Resources – Energy"	13-14
KPI A2.2	Water consumption in total and intensity	Not feasible for the Group to obtain the data.	14
KPI A2.3	Description of energy use efficiency initiatives and results achieved	"Use of Resources – Energy"	13
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	"Use of Resources – Water"	14
KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced	Not applicable to the Group's business	–
A3: The Environment and Natural Resources			
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KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	"The Environment and Natural Resources"	14

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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B. Social			
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KPI B1.1	Total workforce by gender, employment type, age group and geographical region	"Employment"	16
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B2: Health and safety			
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KPI B2.1	Number and rate of work-related fatalities	No case of work-related fatality was noted.	17
KPI B2.2	Lost days due to work injury	No case of lost days due to work injury was noted.	17
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KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	"Labour Standards"	17
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ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	–	17
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KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	–	18
KPI B6.2	Number of products and service related complaints received and how they are dealt with	No complaint regarding product responsibility was noted.	18
KPI B6.3	Description and practices relating to observing and protecting intellectual property rights	–	18
KPI B6.4	Description of quality assurance process and recall procedures	–	18
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	"Product Responsibility"	18
B7: Anti-corruption			
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KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the case	No concluded legal case regarding corrupt practices was noted.	19
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	–	19
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KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	–	19
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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Liu Ruopeng ("Dr. Liu"), aged 36, is currently the chairman and executive Director of the Company and also the chairman of nomination committee of the Company. Dr. Liu joined the Company in August 2014. Dr. Liu has been the president of Kuang-Chi Institute of Advanced Technology, a private not-for-profit research organisation which focuses on science research since 2010. Dr. Liu has been the director of the State Key Laboratory of Metamaterial Electromagnetic Modulation Technology since 2012, and vice chairman of the National Technical Committee of Standardization for Electromagnetic Metamaterial Technology and Products since 2013. Dr. Liu is executive vice chairman of the Youth Committee of the All-China Federation of Returned Overseas Chinese, deputy of the National People's Congress, vice chairman of Shenzhen Federation of Industry and Commerce, a commissioner for recommending young talents to Shenzhen, a member of the Standing Committee of Shenzhen Youth Federation, a member of the Shenzhen-Hong Kong Youth Consulting Committee for Authority. Dr. Liu obtained a collective award of "Guangdong Youth May 4th Medal" in 2011. Dr. Liu was awarded "China Youth May 4th Medal", the top honour for young Chinese people, in 2014.

Dr. Liu obtained a master's degree and a doctorate degree from Duke University, the United States in 2009 and a bachelor's degree from Zhejiang University, China in 2006. Dr. Liu was a non-executive director of Martin Aircraft Company Limited ("MACL") until 26 September 2018, which removed from the official list of Australian Securities Exchange with effect from 4 June 2018. Afterward, MACL had arranged to transition its shares to the Unlisted Securities Exchange ("USX") (a New Zealand unlisted share trading platform) with effect from 7 June 2018. Dr. Liu is a chairman of Kuang-Chi Technologies Co., Ltd (the shares of which are listed on the Shenzhen Stock Exchange, the stock code: 002625.SZ). Dr. Liu has extensive experience in research and development of advanced technologies and business network in relation to metamaterial, near space and other innovative technology industries. Dr. Liu has made outstanding contributions to business management, the system innovation of new-type research institutions and the construction of the Global Community of Innovation.

Dr. Zhang Yangyang ("Dr. Zhang"), aged 40, is currently the executive Director of the Company and also a member of remuneration committee of the Company. Dr. Zhang joined the Company in August 2014. Dr. Zhang has been the executive vice president of Kuang-Chi Institute of Advanced Technology since 2010. Dr. Zhang has been vice president of Shenzhen Young Science and Technology Talents Association since 2012. Dr. Zhang obtained a collective award of "Guangdong Youth May 4th Medal" in 2011. Dr. Zhang has been the director of Kuang-Chi Technologies Co., Ltd (the shares of which are listed on Shenzhen Stock Exchange Limited, the stock code: 002625.SZ) since April 2017.

Dr. Zhang obtained a doctorate degree from the University of Oxford, the United Kingdom in 2008, and a master's degree and a bachelor's degree from the Northeastern University, China in 2004 and 2002 respectively. Dr. Zhang was a non-executive director of MACL until 16 August 2016, which removed from the official list of Australian Securities Exchange with effect from 4 June 2018. Afterward, MACL had arranged to transition its shares to the USX (a New Zealand unlisted share trading platform) with effect from 7 June 2018. Dr. Zhang has extensive experience in research and development of advanced technologies and business network in relation to metamaterial, near space and other innovative technology industries. Dr. Zhang has extensive experience in business management and team management.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Luan Lin ("Dr. Luan"), aged 40, is currently the chief executive officer and chief technology officer and executive Director of the Company. Dr. Luan joined the Company in August 2014. Dr. Luan has been the vice president of Kuang-Chi Institute of Advanced Technology since 2010. Dr. Luan obtained a collective award of "Guangdong Youth May 4th Medal" in 2011.

Dr. Luan obtained a doctorate degree from Duke University, the United States in 2010 and a master's degree from Peking University, China in 2004. Dr. Luan is a non-executive director of MACL, which removed from the official list of Australian Securities Exchange with effect from 4 June 2018. Afterward, MACL had arranged to transition its shares to the USX (a New Zealand unlisted share trading platform) with effect from 7 June 2018. Dr. Luan has extensive experience in research and development of advanced technologies and business network in relation to electronic information, near space and other innovative technology industries. Dr. Luan has extensive experience in business management and team management.

Dr. Ji Chunlin ("Dr. Ji"), aged 38, is the vice president and Chief Technology Officer of Kuang-Chi Institute of Advanced Technology. Dr. Ji was elected as a senior engineer of engineering technology in Shenzhen in 2019. He also serves as the deputy director of the State Key Laboratory of Metamaterial Electromagnetic Modulation Technology, a member of the Academic Committee and the National Standardization Committee on Electromagnetic Metamaterial Technology and Products, a fellow of the first batch of experts of Shenzhen Standard Experts Depository, and a member of the 100 Experts Committee of Artificial Intelligence and Big Data in China. He is the executive director of the computing and statistics branch of the Statistical Research Institute of China and the 10th Council of the National Statistical Society of China; the director of Shenzhen Key Laboratory of Information Science and Modeling Technology; and the director of Shenzhen Engineering Laboratory of New Materials and Computer Auxiliary Design, etc.

Dr. Ji received a doctoral degree in statistics from Duke University in the United States in 2009, and subsequently served as a postdoctoral fellow in the Statistics Department of Harvard University in 2010 and engaged in academical research. Dr. Ji has been acting as the Non-employee Representative Supervisor and the chairman of the Supervisory Committee of Kuang-Chi Technologies Co., Ltd (the shares of which are listed on Shenzhen Stock Exchange, stock code: 002625.SZ) since June 2019. Dr. Ji has extensive research and development experiences in applied and fundamental research and technological product innovation of statistics, metamaterials, data science and machine learning.

NON-EXECUTIVE DIRECTOR

Mr. Li Chiu Ho ("Mr. Li"), aged 31, is currently a Managing Director of First Move Consulting Limited (先發顧問有限公司), which is providing various financial and consultancy services. He graduated from the Chinese University of Hong Kong with a bachelor degree of Business Administration in Professional Accountancy. Mr. Li is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Li has 9 years of experience in audit, finance and accounting fields in Hong Kong. He previously worked in PricewaterhouseCoopers as manager. During 2017 to 2018, he acted as the financial controller of the Company and was responsible for financial management and reporting of the Company. Mr. Li joined the Company in March 2020.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Liu Jun ("Dr. Liu J"), aged 55, is currently an independent non-executive Director of the Company and also a member of the audit committee, nomination committee and remuneration committee of the Company. Dr. Liu J joined the Company in August 2014. Dr. Liu J was appointed a professor of statistics at Harvard University in 2000 and has written research papers and publications about Markov chain Monte Carlo algorithms. Dr. Liu J received a number of awards including The Committee of Presidents of Statistical Societies 2002 Presidents' Award in 2002 and the Morningside Gold Medal in Mathematics in 2010. Dr. Liu J was elected as a fellow of the Institute of Mathematical Statistics in 2004 and the American Statistical Association in 2005. Dr. Liu J obtained a doctorate degree from The University of Chicago, the United States of America in 1991.

Dr. Wong Kai Kit ("Dr. Wong"), aged 46, is currently an independent non-executive Director of the Company and also the chairman of remuneration committee and a member of audit committee and nomination committee. Dr. Wong joined the Company in August 2014. Dr. Wong was appointed a professor at the Department of Electronic and Electrical Engineering, University College London, United Kingdom in October 2015. Dr. Wong had other teaching and research roles in universities and education institutes in Hong Kong, the United States of America and the United Kingdom. Dr. Wong is an academician of The Institution of Engineering and Technology Inc. ("IET") and a fellow of The Institute of Electrical and Electronics Engineers Inc.. Dr. Wong obtained a doctorate degree, a master's degree and a bachelor's degree from the Hong Kong University of Science and Technology, Hong Kong, in 2001, 1998 and 1996 respectively.

Mr. Choi Wing Koon ("Mr. Choi"), aged 42, holds a bachelor's degree in Business Administration (Accounting) awarded by the Hong Kong University of Science and Technology in 1999. He also obtained a master's degree in Business Administration awarded by the University of Hong Kong in 2014. Mr. Choi is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He has over 15 years of experience in accounting and the company secretarial field. Mr. Choi is currently the financial controller and company secretary of Huanxi Media Group Limited (stock code: 1003), the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is currently an independent non-executive director of Universe Entertainment and Culture Group Company Limited (stock code: 1046), the shares of which are listed on the Main Board of the Stock Exchange. He was also an independent non-executive director of G Neptune Berhad, a company listed on the ACE Market of Bursa Malaysia Securities Berhad from May 2014 to May 2017. Mr. Choi joined the Company in October 2019.

DIRECTORS' REPORT

The Directors are pleased to present their report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are engaged in the research and development as well as manufacture of innovative products for future technology business, and the provision of other innovative technology service solutions (the "Future Technology Business"). Details of the principal activities of the principal subsidiaries of the Company are set out in note 1 to the consolidated financial statements of this annual report. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2019.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

During the year, the Group's five largest suppliers and the largest supplier accounted for approximately 77.3% and 43.7% respectively of the Company and its subsidiaries' total purchases.

During the year, the Group's five largest customers accounted for approximately 89.5% of the Group's total sales. The largest customer accounted for approximately 38.7% of the Group's total sales.

None of the Directors, their close associates or any shareholders of the Company, which to the knowledge of the Directors, own more than 5% of the Company's issued share capital has a beneficial interest in any of the Group's five largest suppliers and customers during the year.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated financial statements on pages 57 to 63.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2019.

BUSINESS REVIEW

Overview

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

Key financial and business performance indicators

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

The Group's gross profit margin, based on gross profit for the year to revenue, was 16% (2018: 12%) for the year ended 31 December 2019. The gross profit margin for 2019 increased as compared to that for 2018, mainly due to sale of other products of higher margin for 2019.

DIRECTORS' REPORT

EBITDA and share based payment represented earnings from continuing operations before interest, taxes, depreciation and amortisation. The Group's EBITDA and share based payment increase by HK$138,229,000 (2018: decrease by HK$769,075,000) reflecting the decrease in other operating expenses during the year ended 31 December 2019.

The level of debt (including lease liabilities and bank and other borrowings) to equity of the Group was at a healthy level of 0.48 times as at 31 December 2019 (2018: 0.33). The Group will continue to safeguard its capital adequacy position, manage key risks cautiously and set prudent yet flexible business development strategies to strike a balance between business growth and prudent risk management.

Environmental policies

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

Health and safety

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

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

Environment protection

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

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

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

Community involvement

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

DIRECTORS' REPORT

Compliance with laws and regulations

The Group continues to update its compliance and risk management policies and procedures, and the senior management are delegated with the continuing responsibility to monitor compliance with all significant legal and regulatory requirements. These policies and procedures are reviewed regularly. For the year ended 31 December 2019 and up to the date of this report, as far as the Board of Directors and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. For the year ended 31 December 2019, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

Principal risks and uncertainties

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

(1) Industry risk

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

(2) Macroeconomic environment

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

(3) Foreign Exchange Rate Risk

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

Relationships with key stakeholders

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

Employees

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

DIRECTORS' REPORT

Customers

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

Suppliers

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

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 62 and other details of the reserves of the Company are set out in notes 34 and 44 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2019, the Company had no reserves available for distribution. However, the Company's share premium account, in the amount of approximately HK$2,339,550,000 may be distributed in the form of fully paid bonus shares.

FIXED ASSETS

Details of movements in the Group's property, plant and equipment and right of use assets during the year are set out in notes 17 and 21 to the consolidated financial statements respectively.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 33 to the consolidated financial statements and "Capital Structure" in the section headed "Management Discussion and Analysis" on page 5 of this annual report.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 154.

PRE-EMPTIVE RIGHTS

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

DIRECTORS' REPORT

EQUITY-LINKED AGREEMENT

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

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

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

SHARES ISSUED

The Company did not issue any shares during the year ended 31 December 2019.

DIRECTORS AND SERVICE CONTRACTS

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

Board of Directors
Executive Directors
Dr. Liu Ruopeng *(Chairman)*
Dr. Luan Lin *(Chief Executive Officer & Chief Technology Officer)*
Dr. Zhang Yangyang
Dr. Ji Chunlin@
Mr. Dorian Barak ^

Non-executive Director
Mr. Li Chiu Ho**

Independent Non-executive Directors
Dr. Liu Jun
Dr. Wong Kai Kit
Mr. Choi Wing Koon*
Ms. Cao Xinyi#

* Appointed on 21 October 2019
\# Resigned on 23 July 2019
@ Appointed on 1 February 2020
^ Resigned on 31 January 2020
** Appointed on 23 March 2020

In accordance with Bye-laws 87(1) of the Company, Dr. Liu Ruopeng and Dr. Liu Jun will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Bye-laws 86(2) of the Company, Mr. Li Chiu Ho will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

DIRECTORS' REPORT

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 23 to 25.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS, TRANSACTIONS AND ARRANGEMENTS OF SIGNIFICANCE

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

PERMITTED INDEMNITY PROVISION

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

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme and restricted share award scheme as an incentive to Directors and eligible employees, details of which are set out in notes 10 and 36 to the consolidated financial statements.

DIRECTORS' REPORT

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group during the year ended 31 December 2019 are set out in note 10 and 12 to the consolidated financial statements respectively. The remunerations of the Directors are determined based on the market price and contribution made by such Directors to the Company. There has been no arrangement under which any Director has waived or agreed to waive any emoluments.

CONTINUING CONNECTED TRANSACTIONS, CONNECTED TRANSACTIONS AND OTHER RELATED PARTY TRANSACTIONS

Save as disclosed below, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this annual report in compliance with the requirements of Chapter 14A of the Listing Rules during the year ended 31 December 2019. The Directors confirm that they have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Continuing connected transactions

During the year, the Group did not have any continuing connected transactions which are required to be disclosed in this annual report.

Connected transactions

During the year, the Group did not have any connected transactions which are required to be disclosed in this annual report.

Other related party transactions

The other related party transactions during the year as disclosed in note 37 to the consolidated financial statements are deminimis transactions that are partially exempted from announcement and/or independent shareholders' approval under Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions entered into by the Group during the year ended 31 December 2019.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2019, the following Directors or chief executives of the Company or his associates had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

	Number of Shares held		Number of underlying Shares held		Approximate percentage
Name of Director/Chief executive	Personal interest	Corporate interests	Personal interest	Total	of total issued Shares
Dr. Liu Ruopeng ("Dr. Liu")	–	3,078,500,000 (L) (Note 2)	–	3,078,500,000 (L)	50.00%
		1,067,862,045 (S) (Note 3)		1,067,862,045 (S)	17.34%
Dr. Liu Jun	80,000 (L)	–	–	80,000 (L)	0.001%

Notes:

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

2. This represents the interests in 3,078,500,000 shares of the Company directly held by two companies: (1.) 3,078,000,000 shares held by New Horizon Wireless Technology Limited ("New Horizon"), being a wholly-owned subsidiary of Wireless Connection Innovative Technology Limited which is owned as to 51% by Kuang-Chi Innovative Technology Limited and as to 49% by Shenzhen Kuang-Chi Hezhong Technology Limited. Kuang-Chi Innovative Technology Limited is a subsidiary of Shenzhen Dapeng Kuang-Chi Technology Limited, which is in turn a subsidiary of Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership (Limited Liability Partnership) of which Dr. Liu is the controlling shareholder, and Dr. Liu is the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology Limited; and (2.) 500,000 shares held by Sky Asia Holdings Limited ("Sky Asia"), being a wholly-owned subsidiary of Shenzhen KuangChi Youlu Technology Co., Ltd, which is wholly owned by Shenzhen Kuang-Chi Hezhong Technology Limited, and as mentioned above, Dr. Liu is the controlling shareholder. Accordingly, Dr. Liu is deemed to be interested in the same number of shares of the Company held by New Horizon and Sky Asia respectively.

3. This represents the share charge given by New Horizon in favour of Everbright Fortune over 1,067,862,045 Shares owned by New Horizon.

4. As of 31 December 2019, the issued shares of the company were 6,156,928,860.

Save as disclosed above, as at 31 December 2019, no interests or short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2019, the following shareholders had interests, directly or indirectly, or short positions in the shares and underlying shares of the Company would fall to be disclosed to the Company and the Stock Exchange under provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate percentage of total issued Shares
Ms. Huang Weizi	Interest of spouse	3,078,500,000 (L) (Note 2) 1,067,862,045 (S)	–	3,078,500,000 (L) 1,067,862,045 (S)	50.00% 17.34%
New Horizon	Beneficial owner	3,078,000,000 (L) 1,067,862,045 (S) (Note 3)	–	3,078,000,000 (L) 1,067,862,045 (S)	49.99% 17.34%
Wireless Connection Innovative Technology Limited	Interest of controlled corporation	3,078,000,000 (L) 1,067,862,045 (S)	–	3,078,000,000 (L) 1,067,862,045 (S)	49.99% 17.34%
深圳大鵬光啟科技有限公司 (*Shenzhen Dapeng Kuang-Chi Technology Limited)	Interest of controlled corporation	3,078,000,000 (L) 1,067,862,045 (S)	–	3,078,000,000 (L) 1,067,862,045 (S)	49.99% 17.34%
深圳大鵬光啟聯眾科技合伙企業(有限合伙) (*Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership (Limited Liability Partnership))	Interest of controlled corporation	3,078,000,000 (L) 1,067,862,045 (S)	–	3,078,000,000 (L) 1,067,862,045 (S)	49.99% 17.34%
深圳光啟合眾科技有限公司 (*Shenzhen Kuang-Chi Hezhong Technology Limited)	Interest of controlled corporation	3,078,500,000 (L) 1,067,862,045 (S)	–	3,078,500,000 (L) 1,067,862,045 (S)	50.00% 17.34%
深圳光啟創新技術有限公司 (*Shenzhen Kuang-Chi Innovative Technology Limited)	Interest of controlled corporation	3,078,000,000 (L) 1,067,862,045 (S)	–	3,078,000,000 (L) 1,067,862,045 (S)	49.99% 17.34%
上海光大富尊璟琿投資中心(有限合伙) (*Shanghai Everbright Fortune Jinghui Investment Center (Limited Liability Partnership)) (Note 4)	Person having a security interest in Shares	1,067,862,045 (L)	–	1,067,862,045 (L) (Note 9)	17.34%

* *For identification purpose only*

DIRECTORS' REPORT

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate percentage of total issued Shares
光大富尊泰鋒投資管理(上海)有限公司 (*Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd) (Note 5)	Interest of controlled corporation	1,067,862,045 (L)	–	1,067,862,045 (L) (Note 9)	17.34%
光大富尊投資有限公司 (*Everbright Fortune Investment Co., Ltd) (Note 6)	Interest of controlled corporation	1,067,862,045 (L)	–	1,067,862,045 (L) (Note 9)	17.34%
光大證券股份有限公司 (*Everbright Securities Company Limited)	Interest of controlled corporation	1,067,862,045 (L)	–	1,067,862,045 (L) (Note 9)	17.34%
Central Faith International Ltd.	Beneficial owner and Interest of controlled corporation	972,981,013 (L)	–	972,981,013 (L) (Note 9)	15.80%
World Treasure Global Limited (Note 7)	Beneficial owner	618,981,013 (L)	–	618,981,013 (L) (Note 9)	10.05%
Ye Cheng (Note 8)	Interest of controlled corporation	347,471,988 (L)	–	347,471,988 (L) (Note 9)	5.64%

* *For identification purpose only*

Notes:

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

2. This represents the interest in the shares of the Company held by New Horizon and Sky Asia. Ms. Huang Weizi ("Ms. Huang"), being the spouse of Dr. Liu, is deemed to be interested in the same number of Shares held by New Horizon and Sky Asia.

3. This represents the share charge given by New Horizon in favour of Everbright Fortune over 1,067,862,045 Shares owned by New Horizon.

4. 50% of equity interest of Shanghai Everbright Fortune Jinghui Investment Center (Limited Liability Partnership) is held by Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd.

5. 85% of equity interest of Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd is held by Everbright Fortune Investment Co., Ltd.

6. 100% of equity interest of Everbright Fortune Investment Co., Ltd. is held by Everbright Securities Company Limited.

7. World Treasure Global Limited is a wholly owned subsidiary of Central Faith International Ltd.

DIRECTORS' REPORT

8. Mr. Ye Cheng is the sole owner of Cutting Edge Global Limited which have direct interest on 206,818,877 shares and LUCKY TIME GLOBAL LIMITED which have direct interest on 140,653,111 shares.

9. Based on the disclosure of interests' forms submitted by these substantial shareholders respectively as of 31 December 2019.

10. As at 31 December 2019, the issued shares of the company were 6,156,928,860.

Save as disclosed above, as at 31 December 2019, the Company was not aware of any other person (other than the director or chief executives of the Company) who had an interest, directly or indirectly, or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME AND RESTRICTED SHARE AWARD SCHEME

Share Option Scheme

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

The purpose of the Share Option Scheme is to enable the Company to provide incentive to participants in recognition of their contribution to the Group. The directors of the Company may offer to grant any employee or director of the Company or any adviser, consultant, agent, contractor, customers and supplier of any member of the Group or whom the Board in its sole discretion considers eligible for the scheme on the basis of his or her contribution to the Group.

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

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

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

The Share Option Scheme will remain valid for a period of 10 years commencing on 31 July 2012.

As at the date of this report, the total number of share options available for issue under the scheme is 270,606,779 shares. The share options granted under the Share Option Scheme were lapsed on 29 September 2019, details were disclosed in 2018 Annual Report, and no further share option was granted under the Share Option Scheme for the year end 31 December 2019. None of the Directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such share options during the period.

DIRECTORS' REPORT

Restricted Share Award Scheme

Under the restricted share award scheme ("RSA Scheme") approved and adopted by the shareholders in the general meeting of the Company on 10 December 2014, the Company may grant restricted shares to participants including directors and full-time or part-time employees of the Company or any of its subsidiaries as determined by the Share Award Committee ("SA Committee").

The purpose of the RSA Scheme is to recognise and motivate the contribution of the participants and to provide them with a direct economic interest in attaining the long-term business objectives of the Company. Pursuant to the rules of the RSA Scheme, the SA Committee may, from time to time, at its absolute discretion select any participant after taking into account, among other things, the performance of the relevant participants and/or their contributions to the Group as it deems appropriate for participation in the RSA Scheme as a selected participant. The SA Committee shall determine the number of existing Ordinary Shares to be purchased or new Ordinary Shares to be issued as restricted shares granting to the selected participants. Pursuant to the rules of the RSA Scheme, existing Ordinary Shares shall be purchased by an appointed trustee, and/or new Ordinary Shares may be allotted and issued to the trustee, to hold on trust for the participants until such restricted shares are vested.

During the year ended 31 December 2019, no restricted shares were granted by the Company. During the year ended 31 December 2019, no equity shares were purchased nor issued by the Company for the purposes of the RSA Scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Share Option Scheme and the RSA Scheme as mentioned above, at no time during the year ended 31 December 2019 was the Company or its subsidiaries, or fellow subsidiaries a party to any arrangements to enable the Directors or their respective associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year ended 31 December 2019.

SUFFICIENCY OF PUBLIC FLOAT

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

COMPETING INTERESTS

During the year ended 31 December 2019, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

DIRECTORS' REPORT

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

Change in Director's biographical details since the date of the Interim Report 2019 and up to the date of this report, which are required to be disclosed pursuant to rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") are set out below:

Name of Directors	Details of Change
Ms. Cao Xinyi	Ms. Cao Xinyi resigned as an independent non-executive director and ceased to act as the chairman of the audit committee of the Company with effect from 23 July 2019 due to her other business engagement.
Mr. Choi Wing Koon	Mr. Choi Wing Koon was appointed as an independent non-executive director and chairman of the audit committee of the Company with effect from 21 October 2019 replacing Ms. Cao Xinyi following Ms Cao's resignation.
Mr. Dorian Barak	Mr. Dorian Barak resigned as executive director with effect from 31 January 2020 due to other business commitment.
Dr. Ji Chunlin	Dr. Ji Chunlin was appointed as executive director with effect from 1 February 2020.
Mr. Li Chiu Ho	Mr. Li Chiu Ho was appointed as non-executive director with effect from 23 March 2020.

PROFESSIONAL TAX ADVICE RECOMMENDED

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

EVENT AFTER REPORTING PERIOD

In early 2020, the Group's operation has been affected by quarantine measures imposed by the local government to contain the COVID-19 outbreak. The Group has been paying close attention to the impact of the situation on its operation and taking all possible and reasonable measures to mitigate and limit the impact on the Group's operation. As the extent to which the COVID-19 outbreak will continue is uncertain, the overall financial effect that the COVID-19 outbreak may have on the Group's businesses and financial results cannot be reliably estimated as at the date of this annual report.

DIRECTORS' REPORT

REVIEW BY THE AUDIT COMMITTEE

Audit Committee

The Audit Committee comprises three independent non-executive directors of the Company. The Audit Committee has adopted terms of reference which are in line with the CG Code (as defined in Corporate Governance Report). The Audit Committee has reviewed the audited results for the year ended 31 December 2019 and agreed with the accounting treatment adopted. The Audit Committee is satisfied with the Group's internal control procedure and financial reporting disclosures.

AUDITOR

A resolution will be submitted to the 2020 AGM to re-appoint Crowe (HK) Limited as auditor of the Company.

On behalf of the Board

Dr. Liu Ruopeng
Chairman and Executive Director

Hong Kong, 7 May 2020

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report of the Group for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

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

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

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

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

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

THE BOARD

Responsibilities

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

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

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

CORPORATE GOVERNANCE REPORT

Board diversity

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

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

The Board will also take into account the below aspects:

- Articulate the benefits of diversity, including gender diversity, and the importance of being able to attract, retain and motivate employees from the widest possible pool of available talent;

- To diversify at all levels, including gender, age, cultural and educational background, or professional experience;

- Assess annually on the diversity profile including gender balance of the directors and senior management and its progress in achieving its diversity objectives;

- Ensure that recruitment and selection practices at all levels (from the board downwards) are appropriately structured so that a diverse range of candidates are considered; and

- Has identified and implemented programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees and that, in time, their skills will prepare them for senior management and board positions.

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

CORPORATE GOVERNANCE REPORT

Nomination Policy

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

Objective

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

Selection Criteria

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

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

Nomination Procedures

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

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

Dividend Policy

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

General power to declare dividends

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

CORPORATE GOVERNANCE REPORT

Board's power to pay interim dividends

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

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

Board's power to declare and pay special dividends

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

Dividends to be paid out of profits or reserves

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

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

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

Scrip dividends

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

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

CORPORATE GOVERNANCE REPORT

Composition

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

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

Executive Directors	Dr. Liu Ruopeng Dr. Luan Lin Dr. Zhang Yangyang Dr. Ji Chunlin
Non-executive Director	Mr. Li Chiu Ho
Independent Non-executive Directors	Dr. Liu Jun Dr. Wong Kai Kit Mr. Choi Wing Koon

The profiles of each director are set out in the "Biographical Details of Directors and Senior Management" section on pages 23 to 25. Saved as disclosed in this annual report (if any), to the knowledge of the Directors, the Board members have no financial, business, family or other material relationship with each other.

Chairman and Chief Executive Officers

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

Directors' and officers' insurance

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

Independent Non-Executive Directors

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

CORPORATE GOVERNANCE REPORT

Delegation by the Board

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

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

Appointments, re-election and removal of directors

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

Role and function of the Board and the management

An updated list of the directors of the Company identifying their role and function is maintained on the websites of the Hong Kong Stock Exchange ("Stock Exchange") and the Company.

Compliance with the Model Code for Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its model code for securities transactions by Directors. All the Directors have confirmed, following specific enquiry procedures by the Company that they had complied with the requirements as set out in the Model Code throughout the year.

Directors' continuous training and development

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution into the Board remains informed and relevant. The Directors are committed to complying with the CG Code A.6.5 on directors' training. All Directors have participated in continuous professional development by attending seminars and/or studying materials relevant to director's duties and responsibility and provided a record of training they received for the financial year ended 31 December 2019 to the Company.

BOARD COMMITTEES

The Board has established three committees, namely the Remuneration Committee, Audit Committee and Nomination Committee, each of which has specific written terms of reference.

Remuneration Committee

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

CORPORATE GOVERNANCE REPORT

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

During the year under review, the Remuneration Committee has reviewed and made recommendation to the Board on the remuneration policy and structure of the Company, and determined the remuneration packages of the Directors and senior management. Details of the Directors' remuneration and five individuals with highest emoluments are set out in Notes 10 and 12 to the consolidated financial statements.

In addition, pursuant to the code provision B.1.5, the annual remuneration of the member of the current senior management (other than Directors) by band for the year ended 31 December 2019 are disclosed in Note 10 to the consolidated financial statements. For the year ended 31 December 2019, there was one meeting held by the Remuneration Committee to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration package of the executive Directors and senior management and other related matter.

Audit Committee

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

The main duties of the Audit Committee include the following:

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

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

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

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

The Audit Committee held two meetings during the year ended 31 December 2019 to review the interim and annual financial results. Pursuant to the code provision C.3.3 of the CG Code, the Audit Committee should meet with the Company's auditors at least twice a year. The Company has complied with the CG Code C.3.3 during the year under review.

CORPORATE GOVERNANCE REPORT

Nomination Committee

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

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

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

For the year ended 31 December 2019, one Nomination Committee meeting was held to (1.) review of the structure, size and diversity of the Board; (2.) assessment and confirmation of the independence of the INEDs; (3.) consider the re-appointment of retiring directors at the annual general meeting of the Company, and (4.) review and endorse the board diversity policy of the Company for Board's approval.

Meetings

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The Board met four times during the year ended 31 December 2019.

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

CORPORATE GOVERNANCE REPORT

Minutes of all Board meetings, other Board Committee meetings and general meetings contain sufficient details of matters considered and decisions reached are kept by the secretary of the meetings and are open for inspection by the Directors. The attendance of individual members of the Board meetings, other Board Committee meetings and general meetings during the year ended 31 December 2019 is set out in the table below:

	Meetings attended/Eligible to attend				
	Board of Directors	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Executive Directors					
Dr. Liu Ruopeng	0/4	N/A	N/A	1/1	0/1
Dr. Zhang Yangyang	2/4	N/A	1/1	N/A	0/1
Dr. Luan Lin	4/4	N/A	N/A	N/A	1/1
Mr. Dorian Barak^	4/4	N/A	N/A	N/A	1/1
Dr. Ji Chunlin@	N/A	N/A	N/A	N/A	N/A
Non-executive Director					
Mr. Li Chiu Ho**	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Dr. Liu Jun	1/4	1/2	0/1	0/1	0/1
Dr. Wong Kai Kit	4/4	2/2	1/1	1/1	0/1
Ms. Cao Xinyi*	1/2	1/1	N/A	N/A	0/1
Mr. Choi Wing Koon#	1/1	N/A	N/A	N/A	N/A

* Resigned on 23 July 2019
\# Appointed on 21 October 2019
^ Resigned on 31 January 2020
@ Appointed on 1 February 2020
** Appointed on 23 March 2020

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

Conflict of interest

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

CORPORATE GOVERNANCE REPORT

Corporate Governance function

The Board is responsible for developing and reviewing the Company's policies and practices on corporate governance and performing corporate governance duties as set out in code provision D.3.1 of the CG Code. The following is a non-comprehensive summary of the duties performed by the Board for the year:

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

COMPANY SECRETARY

The Company's secretarial functions are outsourced to external service provider. Pursuant to Appendix 14 paragraph N(a) of the Listing Rules, the primary contact person at the Company is Mr. Lin Ge, the President of the Company. All Directors may access to the advice and services of the Company Secretary. The Company Secretary regularly updates the Board on governance and regulatory matters.

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

For the year ended 31 December 2019, the Company Secretary has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROL

Directors' responsibilities for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Group and have adopted the accounting principles generally accepted in Hong Kong and compiled with the requirements of Hong Kong Financial Reporting Standards which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. As at 31 December 2019, Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis. The accounting systems, risk management and internal control systems of the Company are designed to prevent any misappropriation of the Company's assets, any unauthorised transactions as well as to ensure the accuracy of the accounting records and the true and fairness of the financial statements. Pursuant to the code provision C.1.1 of the CG Code, the management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

CORPORATE GOVERNANCE REPORT

The Board also acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's financial reports, inside information announcements and other financial disclosures required under Listing Rules, and reports to the regulators as well as information required to be disclosed pursuant to statutory requirements. The reporting responsibilities of the Company's independent auditor are set out in the Independent Auditor's Report on pages 52 to 56.

Risk management and internal control

The Board, recognising its overall responsibility in ensuring the systems of risk management and internal controls of the Company and for reviewing their effectiveness, is committed to implement an effective and sound risk management and internal control systems to safeguard the interests of shareholders and the assets of the Group against unauthorised use or disposition. The Board designated this responsibility to Audit Committee. During the year under review, the Audit Committee has conducted a review of the effectiveness and adequacy of the risk management and internal control systems of the Company and its subsidiaries covering all material controls, including financial, operational and compliance controls and risk management functions, and has reached the conclusion that the Group's risk management and internal control systems were in place and effective. As at the date of this report, the Company has an internal audit function.

External auditor and auditor's remuneration

For the year ended 31 December 2019, the total remuneration in respect of the audit services and other services provided by the external auditor, Crowe (HK) CPA Limited of the Company were as follows:

Services rendered for the Company

	HK$'000
Audit services for the year	1,792
Other services	–
Total	1,792

SHAREHOLDER RIGHTS, INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

Shareholders' rights

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

Enquiries of shareholders can be sent to the Company by post to the Company's Hong Kong head office at Unit 1220, 12/F, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong. Shareholders' enquiries and concerns, where appropriate, will be forwarded to and answered by the Board. In addition, shareholders can contact the share registrar of the Company if they have any enquiries about their shareholdings. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Stock Exchange and the Company after each shareholder meeting.

CORPORATE GOVERNANCE REPORT

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

Investor relations and communications with shareholders

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

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

The Company regards the annual general meeting of the Company as an important event and all directors, senior management and external auditors make an effort to attend the annual general meeting of the Company to address shareholders' queries. Shareholders are encouraged to attend all general meetings of the Company, such as the annual general meeting for which at least 21 clear days or 20 clear business days notice is given (whichever is longer).

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

Constitutional documents

During the year ended 31 December 2019, there are no changes in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

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

Opinion

We have audited the consolidated financial statements of KuangChi Science Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 57 to 153, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, which include a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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.

Basis for Opinion

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

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.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables and contract assets	
Refer to notes 5.1(b), 6, 24 and 25 to the consolidated financial statements The carrying amounts of the Group's trade receivables and contract assets as at 31 December 2019 were HK$272,892,000 and HK$14,281,000, after net of allowance for expected credit loss ("ECL") of HK$57,600,000 and HK$290,000 respectively, represented approximately 16% of the total assets of the Group. The measurement of ECL requires the application of significant judgement and increased complexity which include the identification of exposures with a significant deterioration in credit quality, and assumptions used in the ECL models (for exposures assessed individually or collectively), such as the expected future cash flows and forward-looking macroeconomic factors. Management made a loss allowance of HK$32,595,000 and reversal of loss allowance of HK$329,000 on trade receivables and contract assets respectively based on their assessment. We identified the recoverability of trade receivables and contract assets as a key audit matter due to the significance of the balances to the consolidated financial statements, combined with the significant degree of estimations, in evaluating the ECL of trade receivables and contract assets which may affect the carrying amounts at the end of the reporting period.	Our audit procedures in relation to the management's assessment for impairment of trade receivables and contract assets included: • Obtaining an understanding on how the management assess the ECL of trade receivables and contract assets by applying the ECL model; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 31 December 2019, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables and contract assets as at 31 December 2019, including their identification of credit impaired trade receivables and contract assets, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); and • Testing subsequent settlements of trade receivables and contract assets, on a sample basis, by inspecting supporting documents in relation to cash receipts from trade debtors subsequent to the end of the reporting period.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of property, plant and equipment and right-of-use assets	
Refer to notes 6, 17 and 21 to the consolidated financial statements. The carrying amounts of the Group's property, plant and equipment and right-of-use assets as at 31 December 2019 were HK$380,264,000 and HK$157,729,000, respectively, represented approximately 29% of the total assets of the Group. Management determined the recoverable amounts of property, plant and equipment and right-of-use assets with assistance from the independent external professional valuers. Given that the Group was loss making for the year, management of the Company performed an impairment assessment of the property, plant and equipment and right-of-use assets to determine their recoverable amounts based on the fair value less costs of disposal of the relevant property, plant and equipment and right-of-use assets. Based on the management's assessment, impairment losses on property, plant and equipment and right-of-use assets amounted to HK$3,200,000 and HK$7,253,000, respectively, were made for the year ended 31 December 2019. We identified the impairment loss assessment on property, plant and equipment and right-of-use assets as a key audit matter due to the significance of the balances to the consolidated financial statements, combined with the significant judgement involved in the management's assessment of the recoverable amounts of property, plant and equipment and right-of-use assets which may affect the carrying amounts at the end of the reporting period.	Our audit procedures in relation to the management's impairment assessment of property, plant and equipment and right-of-use assets included: • Discussing and evaluating management's identification of indicators of potential impairment; • Evaluating the competence, capability and objectivity of the independent external professional valuers; • Obtaining and reviewing the valuation reports prepared by the external valuers engaged by the Group; • Obtaining an understanding from the external valuers about the valuation methodology, the performance of the property markets, significant assumptions adopted, critical judgment on key inputs and data used in the valuations; • Assessing the reasonableness of source data used in the valuations by benchmarking the assumptions to relevant market information on sales prices and rentals achieved by the similar properties in the neighbourhood; and • Checking the arithmetical accuracy of the fair value less costs of disposal calculations.

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Crowe (HK) CPA Limited
Certified Public Accountants

Hong Kong, 7 May 2020

Chan Wai Dune, Charles
Practising Certificate Number P00712

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Continuing operations			
Revenue	7	**60,822**	158,406
Cost of sales		**(51,009)**	(139,563)
Gross profit		**9,813**	18,843
Other income	8	**8,941**	6,016
Other gains, net	8	**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	9	**–**	(35,565)
Impairment loss on investments in associates	19	**(38,767)**	–
Selling and distribution expenses		**(23,562)**	(44,189)
Research and development expenses		**(95,155)**	(150,579)
Administrative expenses		**(77,759)**	(114,121)
Operating loss	9	**(243,931)**	(403,398)
Finance income		**1,340**	4,435
Finance costs		**(22,623)**	(23,692)
Finance costs, net	11	**(21,283)**	(19,257)
Share of results of associates	19	**(27,900)**	(7,340)
Loss before tax		**(293,114)**	(429,995)
Income tax expense	13	**–**	(3,452)
Loss from continuing operations		**(293,114)**	(433,447)
Loss from discontinued operation	14	**(613)**	(64,169)
Loss for the year		**(293,727)**	(497,616)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
(Loss)/profit for the year attributable to:			
Owners of the Company		**(294,436)**	(457,609)
Non-controlling interests		**709**	(40,007)
		(293,727)	(497,616)
(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)
		(293,114)	(433,447)
Loss for the year from discontinued operation attributable to:			
Owners of the Company	14	**(319)**	(32,391)
Non-controlling interests	14	**(294)**	(31,778)
	14	**(613)**	(64,169)
Loss per share			
From continuing and discontinued operations			
Basic (HK cents per share)	15	**(4.78)**	(7.43)
Diluted (HK cents per share)	15	**(4.78)**	(7.43)
From continuing operations			
Basic (HK cents per share)	15	**(4.78)**	(6.91)
Diluted (HK cents per share)	15	**(4.78)**	(6.91)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Loss for the year		**(293,727)**	(497,616)
Other comprehensive loss			
Items that may be reclassified to profit or loss:			
Release of reserve upon deemed disposal of a subsidiary		**–**	205
Release of reserve upon deregistration of subsidiaries		**(93)**	–
Exchange differences on translation of foreign operations		**(14,388)**	(76,204)
		(14,481)	(75,999)
Items that will not be subsequent reclassified to profit or loss:			
Changes in fair value of financial assets at fair value through other comprehensive income		**(84,328)**	(620,783)
Income tax relating to fair value change of financial assets through other comprehensive income	32	**8,993**	81,140
		(75,335)	(539,643)
Other comprehensive loss, net of tax		**(89,816)**	(615,642)
Total comprehensive loss for the year		**(383,543)**	(1,113,258)
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		**(383,729)**	(1,075,183)
Non-controlling interests		**186**	(38,075)
		(383,543)	(1,113,258)
Total comprehensive loss attributable to owners of the Company arising from:			
Continuing operations		**(382,843)**	(1,044,288)
Discontinued operation		**(886)**	(30,895)
		(383,729)	(1,075,183)
Total comprehensive income/(loss) attributable to the non-controlling interests arising from:			
Continuing operations		**1,003**	(7,678)
Discontinued operation		**(817)**	(30,397)
		186	(38,075)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	17	**380,264**	304,972
Intangible assets and goodwill	18	**5,023**	10,184
Investments in associates	19	**–**	61,346
Financial assets at fair value through other comprehensive income	20	**731,390**	837,246
Right-of-use assets	21	**157,729**	–
Prepaid land lease payments	22	**–**	80,747
Long-term deposits and prepayments	25	**1,118**	21,436
Total non-current assets		**1,275,524**	1,315,931
CURRENT ASSETS			
Prepaid land lease payments	22	**–**	2,248
Inventories	23	**1,406**	4,000
Contract assets	24	**14,281**	14,598
Trade and other receivables	25	**304,953**	372,394
Loans receivables	26	**–**	9,731
Pledged bank deposits		**193**	310
Cash and cash equivalents	27	**245,879**	429,611
Total current assets		**566,712**	832,892
Total assets		**1,842,236**	2,148,823
EQUITY			
Share capital	33	**61,569**	61,569
Other reserves	34	**1,421,209**	1,549,961
Accumulated losses		**(458,702)**	(221,479)
Equity attributable to owners of the Company		**1,024,076**	1,390,051
Non-controlling interests		**24,296**	41,864
Total equity		**1,048,372**	1,431,915

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	**2019 HK$'000**	2018 HK$'000
LIABILITIES			
NON-CURRENT LIABILITIES			
Lease liabilities	29	**554**	–
Bank and other borrowings	31	**157,980**	443,677
Deferred income tax liabilities	32	**59,421**	69,705
Total non-current liabilities		**217,955**	513,382
CURRENT LIABILITIES			
Trade and other payables	28	**182,166**	141,139
Contract liabilities	24	**7,872**	4,043
Lease liabilities	29	**1,212**	–
Bank and other borrowings	31	**346,425**	22,772
Deferred government grants	30	**26,004**	22,430
Income tax payable		**12,230**	13,142
Total current liabilities		**575,909**	203,526
Total liabilities		**793,864**	716,908
Total equity and liabilities		**1,842,236**	2,148,823

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

The consolidated financial statements on pages 57 to 153 were approved and authorised for issue by the Board of Directors on 7 May 2020 and were signed on its behalf:

Dr. Liu Ruopeng	**Dr. Luan Lin**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to the Owners of the Company					
	Share capital HK$'000 (note 33)	Other reserves HK$'000 (note 34)	Retained earnings/ (accumulated losses) HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2018	61,569	2,159,252	237,644	2,458,465	75,584	2,534,049
Loss for the year	–	–	(457,609)	(457,609)	(40,007)	(497,616)
Other comprehensive loss for the year:						
– Currency translations difference	–	(78,136)	–	(78,136)	1,932	(76,204)
– Deemed disposal of a subsidiary	–	205	–	205	–	205
– Change in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	–	(539,643)	–	(539,643)	–	(539,643)
Total comprehensive loss for the year	–	(617,574)	(457,609)	(1,075,183)	(38,075)	(1,113,258)
Change in shareholding in an existing subsidiary without change of control (note 43(b))	–	217	(1,514)	(1,297)	(9,916)	(11,213)
Share-based compensation	–	8,066	–	8,066	–	8,066
Deemed disposal of a subsidiary (note 39)	–	–	–	–	14,271	14,271
At 31 December 2018 and 1 January 2019	61,569	1,549,961	(221,479)	1,390,051	41,864	1,431,915
(Loss)/profit for the year	**–**	**–**	**(294,436)**	**(294,436)**	**709**	**(293,727)**
Other comprehensive loss for the year:						
– Currency translation difference	**–**	**(13,958)**	**–**	**(13,958)**	**(523)**	**(14,481)**
– Changes in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	**–**	**(75,335)**	**–**	**(75,335)**	**–**	**(75,335)**
Total comprehensive (loss)/income for the year	**–**	**(89,293)**	**(294,436)**	**(383,729)**	**186**	**(383,543)**
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	**–**	**7,086**	**(7,086)**	**–**	**–**	**–**
Transfer of share-based payment reserve upon the expiry of share options	**–**	**(46,545)**	**46,545**	**–**	**–**	**–**
Transfer of subsidiary's share-based payment reserve upon the expiry of share options	**–**	**–**	**17,754**	**17,754**	**(17,754)**	**–**
At 31 December 2019	**61,569**	**1,421,209**	**(458,702)**	**1,024,076**	**24,296**	**1,048,372**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Cash flow from operating activities			
Cash used in operations	40(a)	**(135,425)**	(463,345)
Income tax refund		**–**	3,352
Interest paid		**(22,544)**	(22,775)
Net cash used in operating activities		**(157,969)**	(482,768)
Cash flow from investing activities			
Purchase of property, plant and equipment		**(62,425)**	(123,110)
Purchase of intangible assets		**–**	(15,612)
Proceeds from disposal of property, plant and equipment		**506**	52
Dividend income		**–**	549
Interest received		**4,979**	5,129
Proceeds from repayment of loan receivables		**9,731**	14,493
Release of time deposits		**–**	170,790
Repayment from an associate		**–**	5,888
Decrease/(increase) in pledged deposits		**111**	(310)
Proceeds from disposal of financial assets at fair value through other comprehensive income		**6,590**	–
Net cash outflow on acquisitions of subsidiaries	38	**(21,026)**	–
Net cash outflow from deemed disposal of a subsidiary	39	**–**	(5,302)
Net cash (used in)/generated from investing activities		**(61,534)**	52,567
Cash flow from financing activities			
Proceeds from bank borrowings	40(b)	**46,600**	94,480
Repayments of principal portion of lease payments	40(b)	**(1,075)**	–
Acquisition of non-controlling interests	40(b)	**(6,040)**	(5,144)
Net cash generated from financing activities		**39,485**	89,336
Net decrease in cash and cash equivalents		**(180,018)**	(340,865)
Cash and cash equivalents at the beginning of the year		**429,611**	787,477
Effect of exchange rate changes on cash and cash equivalents		**(3,714)**	(17,001)
Cash and cash equivalents at the end of the year	27	**245,879**	429,611

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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 as stated in note 5.2 to the consolidated financial statements. 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 experiences 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

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

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

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.

3.2 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 3.3). Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Principles of consolidation and equity accounting (Continued)

(iii) Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 3.9.

(iv) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

3.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The Company has appointed the executive directors as the chief operating decision maker to review the operating results of the Group on a consolidated basis, and make strategic decisions.

3.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in the consolidated statement of profit or loss, except when deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within 'finance (costs)/income, net'. All other foreign exchange gains and losses are presented in consolidated statement of profit or loss on a net basis within 'other gains/(losses), net'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of the foreign operations (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that consolidated statement of financial position;

(ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to the profit or loss.

3.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Property, plant and equipment (Continued)

Depreciation of property, plant and equipment is calculated using the straight line method to allocate their costs net of their residual values, over their estimated useful lives, at the following rates per annum:

Buildings	Over the shorter of lease terms or 20 years
Leasehold improvements	Over the shorter of lease terms or 5 years
Plant and machinery	6.6% – 50%
Furniture and fixtures	8% – 33%
Office equipment	10% – 50%
Motor vehicles	10% – 33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains, net in the consolidated statement of profit or loss.

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost less impairment losses, if any. No provision for depreciation is made on assets under construction in progress until such time as the relevant assets are completed and available for their intended use. Upon completion, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

3.8 Intangible assets

(i) Goodwill

Goodwill is measured as described in note 3.9. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Intangible assets (Continued)

(ii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

(iii) Internally-generated intangible assets – research and development expenses

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Research expenditure and development expenditure that do not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Intangible assets (Continued)

(iv) Amortisation

The Group amortises intangible assets with a limited useful life using the straight- line method over the following periods:

• Software	3-5 years
• Technical knowhow and patents	3-10 years

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

3.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash flows from other assets or group of assets (cash-generating-units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

3.10 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through profit or loss, or through other comprehensive income), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classified its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Investments and other financial assets (Continued)

(iii) Measurement (Continued)

Debt instruments (Continued)

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other (losses)/gains, net in the consolidated statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Group recognises an allowance for expected credit loss ("ECL") for all debt instruments not held at fair value through profit or loss. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECL is recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL is provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Investments and other financial assets (Continued)

(iv) Impairment (Continued)

General approach (Continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group may consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECL except for trade receivables and contracts assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECL. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.13 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 25 for further information about the Group's accounting for trade receivables and note 5.1(b) for a description of the Group's impairment policies.

3.14 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less than are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business for inventories less all estimated cost of completion and estimated cost necessary to make the sale.

3.16 Share capital

Ordinary shares are classified as equity (note 33).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company's shares are acquired from the market under the employee share scheme, the total consideration of shares acquired from the market (including any directly attributable incremental costs) is presented as shares held for employee share scheme and deducted from total equity. Upon vesting, the related costs of the vested shares for employee share scheme purchased from the market are credited to shares held for employee share scheme, with a corresponding decrease in employee share-based compensation reserve for employee share scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of profit or loss as finance income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to the consolidated statement of profit or loss in the period in which they are incurred.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

3.20 Leasing

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

As a lessee (applicable from 1 January 2019)

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

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

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Leasing (Continued)

As a lessee (applicable from 1 January 2019) (Continued)

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

– right-of-use assets that meet the definition of investment property are carried at fair value;

– right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value;

– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value; and

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms or the estimated useful lives of the assets.

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

As a lessor (applicable from 1 January 2019)

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

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described above, then the Group classifies the sub-lease as an operating lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Leasing (Continued)

As a lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expenses on a straight-line basis.

As a lessor (prior to 1 January 2019)

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Leasehold land and building (prior to 1 January 2019)

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the entire consideration (including any lump- sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid land lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire property is generally classified as a finance lease and accounted for as property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

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

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

(a) Revenue from sales of "Cloud"

The "Cloud" is a flying apparatus platform providing integrated services including communication, internet access, big data collection and analysis. Some contracts include multiple deliverables, such as the provision of hardware and software and related maintenance services. The related maintenance services are accounted for as a separate performance obligations in (b) below, where the contracts include multiple performance obligations, the transactions price will be allocated to each performance obligation based on the stand-alone selling prices. Revenue is recognised at a point in time when hardware and/or software products are delivered and installed at the customers' specific location with their signed acceptance and the Group has present right to payment and the collection of the consideration is probable.

(b) Revenue from provision of maintenance services of "Cloud"

Services of "Cloud" represent maintenance services in relation to future technology business. Revenue from the maintenance services is recognised over time as maintenance services are transferred over time, and customers simultaneously receive and consume the benefits from maintenance service provided by the Group.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(d) *Revenue from provision of wifi network equipment and installation services*

Revenue from provision of wifi network installation services is recognised at a point in time when hardware and/or software products are delivered and installed at the customers' specific location with their signed acceptance and the Group has present right to payment and the collection of the consideration is probable.

(e) *Revenue from sales of chips*

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

(f) *Revenue from provision of procurement services*

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

3.22 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

3.23 Dividend income

Dividend income is recognised when the right to receive payment is established.

3.24 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 Government grants

Grants from the government are recognised at their fair values when there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised within "other income" in the consolidated statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

3.26 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as other payables in the consolidated statement of financial position.

(ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the consolidated statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.26 Employee benefits (Continued)

(iii) Post-employment obligations

The Group operates defined contribution pension plans.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

3.27 Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or equity directly, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.27 Taxation (Continued)

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. The deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only if it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.28 Share-based payment arrangements

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Company and its subsidiaries. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

3.29 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the note 5.1(b) and are reclassified to receivables when the right to the consideration has become unconditional.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, Leases (Continued)

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. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment. For an explanation of how the Group applies lessee accounting, see note 3.20.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, Leases (Continued)

b. Lessee accounting and transitional impact (Continued)

The following table reconciles the operating lease commitments as disclosed in note 41 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	6,332
Less: commitments relating to leases exempt from capitalisation: – short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(2,587)
	3,745
Less: total future interest expenses	(363)
Total lease liabilities recognised at 1 January 2019	3,382
Analysed as	
Current	1,491
Non-current	1,891
	3,382

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, Leases (Continued)

b. Lessee accounting and transitional impact (Continued)

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$'000	Impact on adoption of HKFRS 16 HK$'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	1,315,931	13,865	1,329,796
Prepaid land lease payments	2,248	(2,248)	–
Trade and other receivables	372,394	(8,235)	364,159
Current assets	832,892	(10,483)	822,409
Total assets	2,148,823	3,382	2,152,205
Lease liabilities (current)	–	1,491	1,491
Current liabilities	203,526	1,491	205,017
Lease liabilities (non-current)	–	1,891	1,891
Total non-current liabilities	513,382	1,891	515,273
Total liabilities	716,908	3,382	720,290

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 depreciation 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, Leases (Continued)

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 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors (Continued)

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollars ("USD") and Canadian dollars ("CAD"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in currency that is not the entity's functional currency.

The Group's financial assets including trade and other receivables, contract assets, loans receivables, time deposits and cash and cash equivalents, are substantially denominated in HK$, USD, RMB and CAD. The Group's financial liabilities including trade and other payables, deferred government grants and bank and other borrowings were substantially denominated in RMB.

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

	2019 HK$'000	2018 HK$'000
Denominated in USD		
Trade and other receivables	**181,605**	146,209
Loans receivables	**–**	9,731
Cash and cash equivalents	**159,466**	112,581
Trade and other payables	**(2)**	–
	341,069	268,521

	2019 HK$'000	2018 HK$'000
Denominated in CAD		
Cash and cash equivalents	**–**	31,322

Since HK$ are pegged to the USD, management considers the foreign exchange risk of USD financial assets and liabilities to the Group is not significant.

As at 31 December 2019, if CAD had strengthened/weakened by 5% against HK$ with all other variables held constant, the post-tax loss for the year would be lower/higher by approximately HK$Nil (2018: HK$1,308,000), mainly as a result of foreign exchange gains/losses on translation of CAD-denominated net assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk

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

For the year ended 31 December 2019, a 100 basis points increase/decrease is used which represents management's assessment of the reasonably possible change in interest rates. If interest rate had been 100 basis points higher/lower with all other variables held constant, the Group's post-tax loss for the year would increase/decrease approximately HK$1,269,000 (2018: HK$937,000).

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

	2019 HK$'000	**% of total loans**	2018 HK$'000	% of total loans
Variable rate borrowings:				
12 months or less	**11,175**	**2%**	22,772	5%
Over 1–5 years	**157,980**	**31%**	102,097	22%
Fixed rate borrowings:				
12 months or less	**335,250**	**67%**	–	–
Over 1–5 years	**–**	**–**	341,580	73%
	504,405	**100%**	466,449	100%

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

(iii) Price risk

The Group's exposure to equity securities price risk arises from investments held by the Group's and classified in the consolidated statement of financial position as financial assets at fair value through other comprehensive income as at 31 December 2019 and 2018.

Other components of equity (net with tax effect) would increase/decrease by approximately HK$62,168,000 (2018: HK$68,534,000) as a result of 10% gains/losses on listed equity instruments measure at fair value through other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group is exposed to credit risk in relation to its trade and other receivables, contract assets, loan receivables and cash deposits at banks. The carrying amounts of trade and other receivables, contract assets, loan receivables, cash and cash equivalents and restricted cash represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

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

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

- credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor/customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Group and changes in the operating results of the customer.

(i) Loan receivables

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

As at 31 December 2019 and 2018, the internal credit rating of loan receivables were performing. The Group has assessed that the expected credit loss rate for these receivables is immaterial under 12 months expected losses method. Thus no loss allowance for loan receivables was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Trade receivables and contract assets

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. As at 31 December 2019 and 2018, the Group has assessed that the expected loss rate for other receivables was immaterial. Thus no loss allowance for other receivables was recognised.

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

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

On that basis, the loss allowance as at 31 December 2019 and 2018 was determined as follows for trade receivables and contract assets:

	Contract asset	Trade receivables						
	Days past due	Days past due						
	Current HK$'000	Current HK$'000	1-90 days HK$'000	91-180 days HK$'000	181-365 days HK$'000	1-2 years HK$'000	Over 2 years HK$'000	Total HK$'000
31 December 2019								
Provision on individual basis								
Expected loss rate	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**42.4%-100.0%**	**50.1%**	**–**
Gross carrying amount	**–**	**–**	**–**	**–**	**–**	**20,460**	**81,102**	**101,562**
Loss allowance	**–**	**–**	**–**	**–**	**–**	**11,064**	**40,661**	**51,725**
Provision on collective basis								
Expected loss rate	**2.2%**	**2.2%**	**3.4%**	**3.4%**	**3.5%**	**4.0%**	**5.4%**	**–**
Gross carrying amount	**14,571**	**175,533**	**7,311**	**3,354**	**29,051**	**4,406**	**9,275**	**228,930**
Loss allowance	**290**	**3,803**	**252**	**115**	**1,026**	**178**	**501**	**5,875**
31 December 2018								
Provision on collective basis								
Expected loss rate	4.2%	4.2%	6.8%	7.0%	7.2%	8.7%	–	–
Gross carrying amount	15,224	127,224	14,935	7,321	16,428	204,736	–	370,644
Loss allowance	626	5,336	1,019	510	1,183	17,740	–	25,788

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Trade receivables and contract assets (Continued)

Trade receivables 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 debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 2 years past due without positive response to collection activities.

Impairment losses on trade receivables and contract assets are presented as impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

As at 31 December 2019, the Group has concentration at credit risk at 75% (2018: 68%) of the total trade debtors were due from the Group's five largest customers for the year ended 31 December 2019.

(c) Liquidity risk

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

Liquidity risk tables

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

At 31 December 2019

	Within 1 year HK$'000	2-5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
Trade and other payables	**175,473**	**–**	**–**	**175,473**	**175,473**
Lease liabilities	**1,323**	**567**	**–**	**1,890**	**1,766**
Other borrowings	**341,041**	**–**	**–**	**341,041**	**335,250**
Bank borrowings	**23,003**	**115,097**	**89,988**	**228,088**	**169,155**
	540,840	**115,664**	**89,988**	**746,492**	**681,644**

At 31 December 2018

	Within 1 year HK$'000	2-5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
Trade and other payables	126,121	–	–	126,121	126,121
Other borrowings	22,203	347,480	–	369,683	341,580
Bank borrowings	31,048	117,173	–	148,221	124,869
	179,372	464,653	–	644,025	592,570

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 FINANCIAL RISK MANAGEMENT (Continued)

5.2 Capital risk management

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

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

The gearing ratios as at 31 December 2019 and 2018 were as follows:

	Note	2019 HK$'000	2018 HK$'000
Bank and other borrowings	31	**504,405**	466,449
Lease liabilities	29	**1,766**	–
Less: Cash and cash equivalents	27	**(245,879)**	(429,611)
Pledged bank deposits		**(193)**	(310)
Net debt		**260,099**	36,528
Total equity		**1,048,372**	1,431,915
Total capital		**1,308,471**	1,468,443
Gearing ratio		**19.9%**	2.5%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 FINANCIAL RISK MANAGEMENT (Continued)

5.3 Fair value estimation

Financial assets and liabilities

(a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements

	Notes	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2019					
Financial assets					
Financial assets at fair value through other comprehensive income	20				
– listed equity securities		**731,390**	**–**	**–**	**731,390**
– unlisted equity securities		**–**	**–**	**–**	**–**
		731,390	**–**	**–**	**731,390**
At 31 December 2018					
Financial assets					
Financial assets at fair value through other comprehensive income	20				
– listed equity securities		806,282	–	–	806,282
– unlisted equity securities		–	–	30,964	30,964
		806,282	–	30,964	837,246

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 FINANCIAL RISK MANAGEMENT (Continued)

5.3 Fair value estimation (Continued)

Financial assets and liabilities (Continued)

(a) Fair value hierarchy (Continued)

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year ended 31 December 2019. During the year ended 31 December 2018, there has been transfers of investments from Level 2 to Level 1 due to resumption of trading. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(b) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the years ended 31 December 2019 and 2018:

	Financial assets at fair value through other comprehensive income	
	2019	2018
	HK$'000	HK$'000
At 1 January	**30,964**	97,761
Additions	**–**	13,364
Disposals	**(6,586)**	–
Fair value change recognised in the other comprehensive income	**(24,378)**	(79,850)
Currency translation difference	–	(311)
At 31 December	**–**	30,964

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 FINANCIAL RISK MANAGEMENT (Continued)

5.3 Fair value estimation (Continued)

Financial assets and liabilities (Continued)

(c) Valuation inputs and relationships to fair value

Financial instruments	Fair value as at 31 December 2019 HK$'000	Fair value as at 31 December 2018 HK$'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input(s) 31 December 2019	Significant unobservable input(s) 31 December 2018
(1) Listed securities – Financial assets at FVOCI	**731,390**	806,282	2019: Level 1 (2018: Level 1)	Fair value is estimated on basis of the quoted market price	**N/A**	N/A
(2) Unlisted securities – Financial assets at FVOCI	**–**	30,964	Level 3	Discounted cash flow model is adopted and the key inputs are revenue growth rate, terminal growth rate and discount rate	**Revenue growth rate from –48% to 63% Terminal growth rate of 3% Discount rate of 17%**	Revenue growth rate from 6% to 7 times# Terminal growth rate of 3% Discount rate of 17% to 26%

The revenue base of an investee company was very small in the initial year of operation, so there was a significant growth rate of 7 times in the second year of the financial projection. The growth rate was declining during the period of financial projection.

Certain of the financial instruments are measured at fair value for financial reporting purposes. The board of directors of the Company has set up a valuation team headed by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

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

For the financial instruments above, slight increases in the perpetual growth rates or volatility used in isolation or share price would result in significant increases in the fair value measurement of the derivatives and vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 FINANCIAL RISK MANAGEMENT (Continued)

5.4 Financial Instruments By Category

	2019	2018
	HK$'000	HK$'000
Financial assets		
Financial assets at fair value through other comprehensive income	**731,390**	837,246
At amortised cost		
– Trade and other receivables	**276,218**	351,833
– Loan receivables	**–**	9,731
– Pledged bank deposits	**193**	310
– Cash and cash equivalents	**245,879**	429,611
	522,290	791,485
	1,253,680	1,628,731
Financial liabilities		
At amortised cost		
– Lease liabilities	**1,766**	–
– Bank and other borrowings	**504,405**	466,449
– Trade and other payables	**175,473**	126,121
	681,644	592,570

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

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

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

The provision of ECL is sensitive to changes in estimates. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2019, the aggregate carrying amount of trade receivables and contract assets was HK$287,173,000 (2018: HK$359,454,000), after a net of allowance for doubtful debts of HK$57,890,000 (2018: HK$26,414,000).

(b) Estimation of impairment of property, plant and equipment and right-of-use assets

If circumstances indicate that the carrying amounts of property, plant and equipment and right-of-use assets may not be recoverable, the assets may be considered "impaired" and are tested for impairment in accordance with HKAS 36, Impairment of assets. An impairment loss is recognised when the asset's recoverable amount has declined below its carrying amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. The asset's recoverable amount will also be estimated if circumstances indicate that an impairment loss previously recognised no longer exists or may have decreased. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. In determining the recoverable amount, significant judgements are required and the Group uses all readily available information, including estimates based on reasonable and supportable assumptions, to arrive at an amount that is a reasonable approximation of recoverable amount. Any adverse changes in the assumptions used in determining the recoverable amount would cause the carrying amount of the asset to be significantly different from the recoverable amount.

(c) Estimation of the fair values of certain financial assets

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see note 5.3(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(d) Revenue recognition

As explained in policy note 3.21, revenue from sales of artificial intelligent coverage system and related products is recognised over time. Such revenue and profit recognition on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

7 REVENUE AND SEGMENT REPORTING

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

	2019 **HK$'000**	2018 HK$'000
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
	60,822	158,406

(b) Segment Information

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

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

Segment revenue and results

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

7 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment Information (Continued)

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 were provided. Information about the Group's non-current assets is presented based on the geographical locations of the assets.

	Revenue from external customers		Non-current assets*	
	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 instruments, financial assets at fair value through other comprehensive income and investments in associates.

Information about major customers

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

	2019	2018
	HK$'000	HK$'000
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#

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

8 OTHER INCOME AND OTHER GAINS, NET

	Note	2019 HK$'000	2018 HK$'000
Other income			
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
		8,941	6,016
Other gains, net			
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	(a)	**93**	–
		4,824	31,594

Note

(a) The gain on deregistration of subsidiaries of HK$93,000 represented the release of exchange reserve arising from translating these subsidiaries' financial statements to profit or loss upon their deregistrations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9 OPERATING LOSS

Operating loss has been arrived at after charging:

	Notes	2019 HK$'000	2018 HK$'000
From continuing operations			
Employee benefit expenses	10	**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	22	**–**	2,341
Amortisation of right-of-use assets	21	**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	25	**32,595**	107,513
(Reversal of impairment loss)/impairment loss on contract assets	25	**(329)**	7,884
Impairment loss on prepayment and other receivables		**1,376**	3,420
Impairment loss on deposits for acquisition of plant and equipments	(a)	**–**	35,565
Impairment loss on property, plant and equipment	17	**3,200**	–
Impairment loss on right-of-use assets	21	**7,253**	–
Impairment loss on investment in associates	19	**38,767**	–

Note

(a) In previous years, the Group paid deposits of RMB18,000,000 (approximately HK$21,339,000) to a vendor for the Traveller project and the Group recorded the payments as deposits for acquisition of plant and equipment. However, the Group ceased the Traveller project in 2018 and the directors considered that all the capital expenditures relating to the Traveller project should be written off accordingly. In addition, the payable for the unpaid contract sum of RMB12,000,000 (approximately HK$14,226,000) under the contract was also recognised in 2018 according to the contract terms. Therefore, a total impairment loss of RMB30,000,000 (approximately HK$35,565,000) was provided in 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10 EMPLOYEE BENEFIT EXPENSES

	2019 HK$'000	2018 HK$'000
From continuing operations		
Salaries, wages and other benefits	**92,160**	144,496
Retirement benefits scheme contributions	**5,704**	10,684
Share options granted to directors and employees	**–**	8,066
	97,864	163,246
Less: capitalised portion	**(2,411)**	(9,775)
	95,453	153,471

	2019 HK$'000	2018 HK$'000
Represented in		
– Selling and distribution expenses	**10,976**	23,868
– Research and development expenses	**51,479**	64,733
– Administrative expenses	**32,998**	64,870
	95,453	153,471

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2018: three) directors are reflected in the analysis shown in note 12. The emoluments payable to the remaining three (2018: two) individuals, who are neither a director nor chief executive of the Company, during the year were as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other allowances	**2,667**	2,227
Discretionary bonuses	**494**	869
Retirement benefits scheme contributions	**113**	47
Share based payments	**–**	158
	3,274	3,301

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10 EMPLOYEE BENEFIT EXPENSE (Continued)

Five highest paid individuals (Continued)

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

	Number of Individuals	
	2019	2018
Nil - HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**–**	1
	3	2

11 FINANCE COSTS, NET

	2019 HK$'000	2018 HK$'000
From continuing operations		
Finance income		
Interest income:		
– Short term and time deposits	**1,179**	2,946
– Loan to related parties (note 37)	**161**	1,489
Finance income	**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
Finance costs	**(22,623)**	(23,692)
Finance costs, net	**(21,283)**	(19,257)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

12 BENEFITS AND INTERESTS OF DIRECTORS

Directors' and chief executive's emoluments

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

For the year ended 31 December 2019

	Fees HK$'000	Salary and other allowance HK$'000	Discretionary bonus HK$'000	Retirement benefits scheme contributions HK$'000	Share-based payments HK$'000	Total HK$'000
Executive Directors						
Dr. Liu Ruopeng ("Dr. Liu R"), Chairman	762	–	–	–	–	762
Dr. Zhang Yangyang*	714	–	–	–	–	714
Dr. Luan Lin, Chief Executive Officer	666	751	680	38	–	2,135
Mr. Dorian Barak (resigned on 31 January 2020)	1,177	–	–	–	–	1,177
Independent Non-executive Directors						
Dr. Liu Jun	250	–	–	–	–	250
Dr. Wong Kai Kit	250	–	–	–	–	250
Ms. Cao Xinyi (resigned on 23 July 2019)	140	–	–	–	–	140
Mr. Choi Wing Koon (appointed on 21 October 2019)	49	–	–	–	–	49
	4,008	751	680	38	–	5,477

* Dr. Zhang Yangyang had resigned as Co-Chief Executive Officer of the Company with effect from 23 May 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

12 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2018

	Fees HK$'000	Salary and other allowance HK$'000	Discretionary bonus HK$'000	Retirement benefits scheme contributions HK$'000	Share-based payments HK$'000	Total HK$'000
Executive Directors						
Dr. Liu R, Chairman	949	–	733	–	–	1,682
Dr. Zhang Yangyang, Co-Chief Executive Officer	889	–	546	–	466	1,901
Dr. Luan Lin, Co-Chief Executive Officer	830	–	546	–	460	1,836
Mr. Dorian Barak	1,175	–	–	–	132	1,307
Non-executive Directors						
Mr. Ko Chun Shun, Johnson (resigned on 16 November 2018)	219	–	–	–	–	219
Mr. Song, Dawei (resigned on 1 August 2018)	146	–	–	–	–	146
Independent Non-executive Directors						
Dr. Liu Jun	250	–	–	–	–	250
Dr. Wong Kai Kit	250	–	–	–	–	250
Ms. Cao Xinyi	250	–	–	–	–	250
	4,958	–	1,825	–	1,058	7,841

Neither the chief executives nor any of the directors waived or agreed to waive any emoluments during the years ended 31 December 2019 and 2018.

No emoluments have been paid by the Group to any of the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2018: Nil).

Save as disclosed in note 37, no other transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiary was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the years or at any time during the years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13 INCOME TAX EXPENSE

	2019 **HK$'000**	2018 HK$'000
From continuing operations		
Current income tax		
PRC Corporate Income Tax		
– Under-provision in prior years	–	3,452
Deferred income tax (note 32)	–	–
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 this jurisdiction for the year ended 31 December 2019 as there were no assessable profits (2018: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13 INCOME TAX EXPENSE (Continued)

The tax charge for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss as follows:

	2019 HK$'000	2018 HK$'000
From continuing operations		
Loss before tax	**(293,114)**	(429,995)
Tax at Hong Kong tax rate of 16.5%	**(48,363)**	(70,949)
Tax effect of different tax rates of subsidiaries operations in other jurisdictions and region	**(4,775)**	(6,454)
Expenses not deductible for tax purposes	**26,624**	41,378
Income not taxable for tax purposes	**(3,898)**	(10,823)
Tax losses not recognised	**30,473**	46,972
Tax effect of temporary differences not recognised	**(9)**	131
Utilisation of tax losses previously not recognised	**(52)**	(255)
Under-provision in prior years	**–**	3,452
Income tax expense	**–**	3,452

14 DISCONTINUED OPERATION

At a special meeting of shareholders of Martin Aircraft Company Limited ("MACL") held on 1 May 2018, the shareholders approved the removal of MACL from the official list of the Australian Securities Exchange (the "ASX") and the delisting of its ordinary shares. As part of the delisting process, MACL has arranged to transition its shares to the USX (a New Zealand unlisted share trading platform) to allow shareholders to continue to trade their shares. MACL was delisted from ASX on 4 June 2018 and the trading of MACL's shares on USX commenced on 7 June 2018.

During the year ended 31 December 2018, MACL faced difficulties in developing its products into commercial use and all business operations were stopped in late 2018. As such, MACL was classified as a discontinued operation. In 2019, MACL continued the procedures for cleaning up its debts with debtors and creditors and disposal of its remaining assets.

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14 DISCONTINUED OPERATION (Continued)

The operating results of the discontinued operation were as follows:

	2019 HK$'000	2018 HK$'000
Revenue	–	–
Other income	458	171
Other gains, net	48	–
Gain/(loss) on disposal of property, plant and equipment	504	(858)
Impairment loss on property, plant and equipment	–	(10,020)
Impairment loss on prepayment and other receivables	–	(2,739)
Write-down of inventories	–	(1,628)
Research and development expenses	–	(23,640)
Selling and distribution expenses	–	(434)
Administrative expenses	(1,626)	(25,255)
Operating loss	(616)	(64,403)
Finance income	3	234
Finance costs	–	–
Finance income, net	3	234
Loss before tax	(613)	(64,169)
Income tax expense	–	–
Loss for the year from discontinued operation	(613)	(64,169)
Loss for the year from discontinued operation attributable to:		
Owners of the Company	(319)	(32,391)
Non-controlling interests	(294)	(31,778)
	(613)	(64,169)
Net operating cash outflow	(4,049)	(14,632)
Net investing cash outflow	(11,983)	(1,047)
Net financing cash inflow	–	–
Net cash outflow	(16,032)	(15,679)

No tax charge or credit arose on the 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.

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For the year ended 31 December 2019

15 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 **HK$'000**	2018 HK$'000
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
Loss for the purpose of basic and diluted loss per share from continuing operations	**(294,117)**	(425,218)

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

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

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15 LOSS PER SHARE (Continued)

(b) From continuing and discontinued operations

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 HK$'000	2018 HK$'000
Loss for the year attributable to owners of the Company	**(294,436)**	(457,609)

For the number of shares used in the computation of basic and diluted loss per share please refer to note 15(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

The calculation of the basic and diluted loss per share from discontinued operation attributable to owners of the Company please refer to note 14.

16 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Furniture and fixture HK$'000	Office equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST								
At 1 January 2018	–	65,526	617	17,613	12,126	6,228	191,433	293,543
Additions	–	229	–	5,823	205	228	110,061	116,546
Disposals	–	(41,212)	(387)	(1,587)	(3,539)	(63)	–	(46,788)
Disposal through deemed disposal of a subsidiary	–	–	–	(1,068)	(222)	–	–	(1,290)
Currency translation differences	–	(1,754)	(14)	(783)	(445)	(265)	(14,273)	(17,534)
At 31 December 2018	–	22,789	216	19,998	8,125	6,128	287,221	344,477
At 1 January 2019	–	22,789	216	19,998	8,125	6,128	287,221	344,477
Additions	–	35	–	4,468	–	–	82,912	87,415
Additions through acquisition of subsidiaries	8,014	–	–	–	–	–	–	8,014
Disposals	–	(1,107)	–	(363)	(7,996)	(364)	–	(9,830)
Currency translation differences	–	(212)	(3)	(294)	(41)	(92)	(6,474)	(7,116)
At 31 December 2019	8,014	21,505	213	23,809	88	5,672	363,659	422,960
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2018	–	46,908	441	9,987	4,628	3,170	–	65,134
Depreciation	–	2,708	92	3,886	2,527	817	–	10,030
Disposals	–	(39,639)	(330)	(798)	(2,764)	(5)	–	(43,536)
Disposal through deemed disposal of a subsidiary	–	–	–	(314)	(146)	–	–	(460)
Provision for impairment	–	7,951	–	1,427	231	411	–	10,020
Currency translation differences	–	(999)	(11)	(297)	(203)	(173)	–	(1,683)
At 31 December 2018	–	16,929	192	13,891	4,273	4,220	–	39,505
At 1 January 2019	–	16,929	192	13,891	4,273	4,220	–	39,505
Depreciation	–	2,158	21	3,311	3,834	909	–	10,233
Disposals	–	(1,107)	–	(336)	(7,996)	(364)	–	(9,803)
Provision for impairment	–	2,370	3	827	–	–	–	3,200
Currency translation differences	–	(166)	(3)	(177)	(23)	(70)	–	(439)
At 31 December 2019	–	20,184	213	17,516	88	4,695	–	42,696
CARRYING AMOUNTS								
At 31 December 2019	8,014	1,321	–	6,293	–	977	363,659	380,264
At 31 December 2018	–	5,860	24	6,107	3,852	1,908	287,221	304,972

The construction in progress mainly represents building under construction for research and development purpose and for use as an office. As at 31 December 2019, the construction in progress with a carrying amount of HK$363,659,000 (2018: HK$287,221,000) was pledged for the banking facilities (note 31).

During the year ended 31 December 2019, certain plant and equipment items were impaired as they were either technically outdated or being idle without alternative use.

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18 INTANGIBLE ASSETS AND GOODWILL

	Goodwill HK$'000	Capitalised development cost HK$'000	Software HK$'000	Technical knowhow and patents HK$'000	Total HK$'000
COST					
At 1 January 2018	41,628	105,584	5,757	78,881	231,850
Additions	–	–	–	15,612	15,612
Deemed disposal of a subsidiary	(9,264)	–	–	(7,018)	(16,282)
Currency translation differences	(1,641)	(1,226)	(67)	(2,293)	(5,227)
At 31 December 2018	30,723	104,358	5,690	85,182	225,953
At 1 January 2019	**30,723**	**104,358**	**5,690**	**85,182**	**225,953**
Currency translation differences	**(71)**	**(1,490)**	**(82)**	**(448)**	**(2,091)**
At 31 December 2019	**30,652**	**102,868**	**5,608**	**84,734**	**223,862**
ACCUMULATED AMORTISATION AND IMPAIRMENT					
At 1 January 2018	32,364	105,584	5,757	72,707	216,412
Amortisation	–	–	–	6,147	6,147
Deemed disposal of a subsidiary	–	–	–	(1,986)	(1,986)
Currency translation differences	(1,641)	(1,226)	(67)	(1,870)	(4,804)
At 31 December 2018	30,723	104,358	5,690	74,998	215,769
At 1 January 2019	**30,723**	**104,358**	**5,690**	**74,998**	**215,769**
Amortisation	**–**	**–**	**–**	**5,043**	**5,043**
Currency translation differences	**(71)**	**(1,490)**	**(82)**	**(330)**	**(1,973)**
At 31 December 2019	**30,652**	**102,868**	**5,608**	**79,711**	**218,839**
CARRYING AMOUNTS					
At 31 December 2019	**–**	**–**	**–**	**5,023**	**5,023**
At 31 December 2018	–	–	–	10,184	10,184

Amortisation of HK$5,043,000 (2018: HK$6,147,000) is included in the consolidated statement of profit or loss within the 'Research and development expenses'.

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19 INVESTMENTS IN ASSOCIATES

The following list contains the particulars of associates, all of which are unlisted corporate entities whose quoted market price is not available.

Name of entity	Country of incorporation/ registration and Principal place of business	Notes	Percentage of ownership interest 2019	2018	Principal activity	Carrying amount 2019 HK$'000	2018 HK$'000
Agent Video Intelligence Ltd. ("Agent VI")	Israel	(a)	**25.4**	25.4	Development of video analytics solutions	**–**	29,644
SkyX Limited ("SkyX")	BVI/Canada	(b)	**51.3**	53.2	Development and commercialisation of SkyX aircrafts	**–**	31,702
Solar Ship Inc. ("Solar Ship")	Canada	(c)	**37.8**	37.8	Development and commercialisation of solar power aircrafts	**–**	–
						–	61,346

(a) Agent VI

	2019 HK$'000	2018 HK$'000
At 1 January	**29,644**	27,582
Share of (losses)/profits	**(3,164)**	1,783
Provision for impairment	**(26,307)**	–
Currency translation differences	**(173)**	279
At 31 December	**–**	29,644

During the year ended 31 December 2019, Agent VI lost certain key members in the research team and no suitable replacement could be found so far. This seriously affected the progress of its research and development activities. In addition, there were several new market participants which offer similar products provided by Agent VI at a competitive price which significantly affected the financial performance of Agent VI. As such, the directors of the Company are of the view that the carrying amount of Agent VI shall be fully impaired.

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19 INVESTMENTS IN ASSOCIATES (Continued)

(b) SkyX

	2019 HK$'000	2018 HK$'000
At 1 January	**31,702**	–
Fair value of retained interest	**–**	40,825
Gain on deemed partial disposal	**5,987**	–
Share of losses	**(24,736)**	(9,123)
Provision for impairment loss	**(12,460)**	–
Currency translation differences	**(493)**	–
At 31 December	**–**	31,702

On 9 August 2018, SkyX entered a preferred share purchase agreement with a new investor (the "Investor") pursuant to which SkyX agreed to issue new shares to the Investor and the Investor also acquired additional interests from existing shareholders. After the investment by the Investor, the Group's equity interest in SkyX was decreased from 64.92% to 53.2%. Upon the appointment of the new director by the Investor, the Group was unable to control the board of SkyX and resulting in a loss in control over SkyX. Accordingly, the investment in SkyX was reclassified as interest in associate as at 31 December 2018. Details are set out in note 39.

On 3 July 2019, the Investor further subscribed the shares of SkyX at a consideration of US$2 million upon the request of additional fund from SkyX. The subscription resulted in a gain on deemed partial disposal of HK$5,987,000.

During the year ended 31 December 2019, SkyX encountered difficulties in the research and development activities and failed to achieve the planned progress and milestones were missed. The commercial launch of the product would then be further delayed. Taking into account of the above circumstances, the directors of the Company considered that the recoverable amount of SkyX became insignificant and full impairment loss shall be made in the consolidated financial statements.

(c) Solar Ship

Full provision for impairment on investment in Solar Ship was made in the previous years as the Board was of the view that the aforesaid investment was difficult to meet its development and business plan. After the preliminary assessment by the Board with reference to the latest available information, no reversal of the impairment was necessary as at 31 December 2019.

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20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Notes	**2019** **HK$'000**	2018 HK$'000
Representing:			
Listed equity securities	(a)	**731,390**	806,282
Unlisted equity securities	(b)	**–**	30,964
		731,390	837,246

Notes:

(a) Listed equity securities

As at 31 December 2019, the Group hold 71,528,751 (2018: 71,528,751) ordinary shares of Kuang-Chi Technologies Co., Ltd. ("KCT"), representing 3.32% (2018: 3.32%) of the issued ordinary shares of KCT. Shenzhen Kuang-Chi Hezhong Technology Limited, which is partially owned by the directors of the Company, Dr. Liu R and Dr. Luan Lin with shareholding of 35.09% and 15.79% respectively, holds more than 5% shareholding of KCT. KCT is a company listed on the Shenzhen Stock Exchange. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in financial assets at FVOCI as they believe that recognising short-term fluctuations in these investments in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

As at 31 December 2019, the listed equity securities with a carrying amount of HK$731,390,000 (2018: HK$806,282,000) was pledged against the other borrowings (note 31).

(b) Unlisted equity securities

The unlisted equity investment represent the Group's equity interest in the private entities. The Group has elected to designate these investments as financial assets at FVOCI because the investments are held for long-term strategic purpose. As at 31 December 2019, included in unlisted equity securities above is the Group's investment in Gilo Industries Group Limited ("Gilo"), a company incorporated in United Kingdom, with a carrying amount of approximately HK$Nil (2018: HK$17,600,000). The investment represents 19.14% (2018: 19.14%) equity interest in Gilo. Gilo is principally engaged in the research and development and manufacturing of aviation engines. During the year ended 31 December 2019, Gilo had disputes with its major key customer over certain sales contract terms and such sales contract was temporarily suspended. The suspension of the sales contract and deterioration of customer relationship had negative impact on the financial performance of Gilo as well as the fair value of Gilo which is calculated based on the discounted cash flows. As a result, a fair value loss of HK$17,600,000 was recorded in 2019. Other than the investment in Gilo, there was a financial instrument issued by SkyX that would be settled in a fixed number of shares of SkyX. During the year ended 31 December 2019, due to the difficulties encountered in the research and development activities and the commercial launch of the product would be further delayed, the fair value of the financial instrument was reduced to zero (2018: HK$13,364,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21 RIGHT-OF-USE ASSETS

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

	Leasehold land HK$'000	Leased properties HK$'000	Total HK$'000
At 1 January 2019, upon adoption of HKFRS 16	82,995	29,443	112,438
Additions	–	1,605	1,605
Additions as a result of the acquisitions of subsidiaries (note 38)	65,953	–	65,953
Amortisation for the year	(2,248)	(8,985)	(11,233)
Termination of leases	–	(2,130)	(2,130)
Impairment loss for the year	–	(7,253)	(7,253)
Currency translation differences	(1,496)	(155)	(1,651)
At 31 December 2019	145,204	12,525	157,729

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

	2019 Total HK$'000
Interest on lease liabilities	154
Amortisation of right-of-use assets	11,233
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	11,052
Impairment loss on right-of-use assets	7,253

As at 31 December 2019, the leasehold land of HK$79,251,000 was pledged against the bank borrowings of the Group (note 31).

During the year ended 31 December 2019, certain leased properties were idle without alternative use, the directors of the Company are of the view that the related leased properties of HK$7,253,000 shall be impaired.

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22 PREPAID LAND LEASE PAYMENTS

	2019 HK$'000	2018 HK$'000
At 1 January	**82,995**	89,900
Effect of adoption of HKFRS 16	**(82,995)**	–
At 1 January, as restated	**–**	89,900
Amortisation	**–**	(2,341)
Currency translation differences	**–**	(4,564)
At 31 December	**–**	82,995
Current portion	**–**	(2,248)
Non-current portion	**–**	80,747

The prepaid land lease payments represented cost of land use rights in respect of land located in the PRC. The purpose of the leased land is to build a technology research centre to support the future technology business.

As at 31 December 2018, the prepaid land lease payments of HK$82,995,000 was pledged against the bank borrowings of the Group (note 31).

Upon the adoption of HKFRS 16 *Leases*, the prepaid land lease payments were reclassified to right-of-use assets as at 1 January 2019 (note 21).

23 INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**698**	2,588
Finished goods	**708**	1,412
	1,406	4,000

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

	2019 HK$'000	2018 HK$'000
Carrying amount of inventories sold	**44,743**	126,544
Write-down of inventories	**3,313**	12,894
	48,056	139,438

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For the year ended 31 December 2019

24 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2019 HK$'000	2018 HK$'000
Arising from performance under service income of cloud	–	5,693
Arising from performance under made-to-order arrangements	14,571	9,531
	14,571	15,224
Less: allowance for expected credit loss	(290)	(626)
	14,281	14,598

As at 31 December 2019, the amount of contract assets that is expected to be recovered after more than one year is HK$Nil (2018: HK$9,140,000).

The movements in loss allowance account for contract assets is disclosed in note 25.

(b) Contract liabilities

	2019 HK$'000	2018 HK$'000
Receipts in advance of performance		
– "Cloud" maintenance services	3,968	4,043
– Made-to-order arrangements	3,904	–
	7,872	4,043

Note:

(i) Movements in contract liabilities:

	2019 HK$'000	2018 HK$'000
Balance at 1 January	4,043	9,397
Currency translation differences	(75)	(286)
Increase in contract liabilities as a result of billing in advance	3,904	–
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	–	(5,068)
Balance at 31 December	7,872	4,043

As at 31 December 2019 and 2018, there was no billings in advance of performance and forward sales deposits and instalments received expected to be recognised as income after more than one year.

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25 TRADE AND OTHER RECEIVABLES

	Note	2019 HK$'000	2018 HK$'000
Trade receivables	(a)	**330,492**	370,644
Less: allowance for expected credit loss	(d)	**(57,600)**	(25,788)
Trade receivables, net		**272,892**	344,856
Deposits and other receivables		**3,326**	3,341
Interest receivables	(b)	**–**	3,636
Prepayments to suppliers		**13,477**	16,051
Rental prepayments	(e)	**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 Group did not hold any collateral over these balances (2018: Nil).

Note:

(a) As at 31 December 2018, included in the trade receivables of approximately HK$8,457,000 represented the receivables arising from provision of wifi network equipment and installation services to a related company controlled by Dr. Liu R.

(b) The interest receivable of HK$3,636,000 as at 31 December 2018 was from a related company controlled by Dr. Lin R as disclosed in note 26.

(c) 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 HK$'000	2018 HK$'000
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**	–
	272,892	344,856

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25 TRADE AND OTHER RECEIVABLES (Continued)

Note: (Continued)

(d) Movements in loss allowance account for the trade receivables and contract assets during the years ended 31 December 2019 and 2018 are as follows:

	Notes	Trade receivables HK$'000	Contract assets HK$'000	Total HK$'000
At 1 January 2018		24,916	–	24,916
Provision for impairment loss	(ii)	107,513	7,884	115,397
Currency translation differences		(5,262)	(312)	(5,574)
Uncollectible amounts written off	(iii)	(101,379)	(6,946)	(108,325)
At 31 December 2018		25,788	626	26,414
At 1 January 2019		**25,788**	**626**	**26,414**
Provision for/(reversal of) impairment loss		**32,595**	**(329)**	**32,266**
Currency translation differences		**(783)**	**(7)**	**(790)**
At 31 December 2019	(i)	**57,600**	**290**	**57,890**

Notes:

(i) As at 31 December 2019, the provision for impairment loss included the ECL provision of HK$51,725,000 on trade receivables for two customers and the details are as follows:

- One out of these two customers ("Customer A") is a state-owned enterprise. The outstanding balance due from Customer A is derived from the Cloud business and is amounted to HK$97,426,000 as at 31 December 2019. Since the end of 2017, the Group had been continuously making regular contacts with Customer A for collection of the outstanding amount and received positive feedback from Customer A. Based on the communications with Customer A, partial settlement amounted to RMB45,000,000 (approximately to HK$50,288,000) has been duly approved by the PRC government authority and the directors of the Company believe that the partial settlement will be received in a short period after the date of approval of these financial statements. For the remaining balance of HK$47,138,000, after taking into account of historical default rate in relation to the Cloud business, no repayment schedule being provided by Customer A and the worsen economic situation of the PRC, the directors of the Company are of the view that HK$ 47,589,000 shall be made on this receivables.

- Another customer ("Customer B") is a private company. The outstanding balance due from Customer B is derived from trading of chips and is amounted to HK$4,136,000 as at 31 December 2019. In view of non-response to the Group's collection activities and Customer B is currently involved in certain litigations, the solvency of Customer B is in question. As such, the directors of the Company are of the view that full provision of HK$4,136,000 shall be made.

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25 TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(ii) Provision for impairment loss for the year ended 31 December 2018 including the following:

- Additional ECL provision of HK$80,945,000 on trade receivables and HK$7,232,000 on contract assets which are mainly relating to two customers of the Group. Since the end of 2017, the Group had been continuously making regular contacts with these two customers for collection of the outstanding amount and received positive feedback from them. However, the market conditions in the PRC changed significantly in the last quarter of 2018. The Group faced difficulties in chasing these two customers for repayment and encountered difficulties in contacting them. The Group made telephone calls and demand letters but did not receive any positive responses from these two customers. Furthermore, the Group learned that the cloud products sold to these two customers were no longer operated. Given the non-payment of the outstanding payments notwithstanding the repeated demands for payments and the cloud products having become inoperable to these two customers as aforesaid, the Group was of the view that there was no reasonable expectation of recovering any outstanding payments from these two customers and therefore made a full impairment provision for the outstanding trade receivables and contract assets (i.e. approximately HK$80,673,000 and HK$7,232,000 respectively, and HK$87,905,000 in aggregate) in relation to these two customers in 2018.

- ECL provision for the year of HK$27,220,000 for trade receivables and contract assets based on historical loss data of the trade receivables adjusted with forward-looking information.

(iii) As the directors of the Company considered that the amounts of HK$108,325,000 of trade receivables and contract assets (mainly relating to the two customers as mentioned in note (ii)) were uncollectible, the loss allowance of HK$108,325,000 (including the loss allowance of HK$24,916,000 brought forward from 2017) was written off in 2018.

(iv) Details of the Group's credit policy please refer to note 5.1(b).

(e) The rental prepayments as at 31 December 2019 represented the prepayments made under lease agreements that are not under the measurement of lease liabilities.

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26 LOANS RECEIVABLES

	Notes	2019 HK$'000	2018 HK$'000
Loan to a related party	(a)	**–**	9,731
Loans to third parties	(b)	**2,368**	2,368
Loan to an associate	(c)	**22,378**	22,378
		24,746	34,477
Less: provision for impairment of loan receivables	(b), (c)	**(24,746)**	(24,746)
		–	9,731

Notes:

(a) The amount represented an advance to a potential investee, Zwipe AS. It is pledged with the patents of the borrower, interest bearing at 8% per annum and repayable within 24 months from the inception date. According to the terms of the loan agreement, the Company and its subsidiaries have the right to convert the loan into the borrower's shares at agreed conversion price if the borrower fails to reach certain milestones stated in the loan agreement. As the loan contains an embedded conversion option, the embedded conversion option is accounted for as a separate derivative as it meets the definition of a derivative, the risks and characteristics are not closely related to those of the loan and the loan is not measured at fair value through profit or loss. The directors of the Company consider that the fair value of this derivative is immaterial as the milestones are expected to be fulfilled. During the year ended 31 December 2017, the repayment date of the loan was revised to 12 November 2018 and the conversion right was cancelled.

Both Dr. Liu R (the controlling shareholder and executive director of the Company and its subsidiaries) and Huang Weizi (spouse of Dr. Liu R) are directors of Zwipe AS. In additions, Photon Future Limited, a company controlled by Dr. Liu R, holds approximately 20% shares of Zwipe AS, and agrees to provide financial support to the investee to settle this loan. On 1 September 2018, the Group entered into a revised loan agreement with Zwipe AS pursuant to which the repayment date was extended to 31 January 2019. The outstanding loan receivable of HK$9,731,000 was fully settled during the year ended 31 December 2019.

The maximum outstanding balance for the loan receivable is HK$9,731,000 during the year ended 31 December 2019 (2018: HK$25,517,000).

(b) As at 31 December 2019 and 2018, the balance represented a loan to Beyond Verbal of HK$2,368,000, which is unsecured, interest bearing at 6% per annum and mature on 31 March 2018. The loan was fully impaired in 2017 as management considered the recoverability of the loans is remote. No repayment was made by Beyond Verbal during the year ended 31 December 2019.

(c) As at 31 December 2019 and 2018, the balance represented a loan to Solar Ship of HK$22,378,000, which is secured by all of the present and future undertaking and personal property of the associate. CAD2,500,000 (approximately HK$15,759,000) of the loan is interest-free and CAD1,050,000 (approximately HK$6,619,000) is interest-bearing at 10% per annum, both of which are repayable on demand.

During the year ended 31 December 2017, management recognised full provision for impairment to the loans to Solar Ship. No repayment was made by Solar Ship during the year ended 31 December 2019.

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27 CASH AND CASH EQUIVALENTS

	Note	**2019 HK$'000**	2018 HK$'000
Cash and cash equivalents	(a)	**245,879**	429,611

Note:

(a) As at 31 December 2019, interest rates over bank deposits ranged from 0.00% to 0.35% (2018: 0.00% to 0.35%) per annum.

28 TRADE AND OTHER PAYABLES

	Note	**2019 HK$'000**	2018 HK$'000
Trade payables	(a)	**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 acquisition of subsidiaries	38	**49,070**	–
Accrued construction costs		**57,905**	33,614
		182,166	141,139

Note:

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

	2019 HK$'000	2018 HK$'000
0 to 90 days	**6,869**	4,057
Over 90 days	**15,258**	21,870
	22,127	25,927

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.

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29 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 (Note)		31 December 2018	
	Present value of the minimum lease payments HK$'000	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**1,212**	**1,323**	1,491	1,754	–	–
After 1 year *but within 2 years*	**554**	**567**	1,673	1,771	–	–
After 2 years *but within* 5 years	**–**	**–**	218	220	–	–
	554	**567**	1,891	1,991	–	–
	1,766	**1,890**	3,382	3,745	–	–
Less: total future interest expenses		**(124)**		(363)		–
Present value of lease liabilities		**1,766**		3,382		–

The incremental borrowing rates used for determination of the present value of lease payments were ranged from 9% to 11%.

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating lease under HKAS 17. Further details on the impact of the transition to HKFRS 16 are set out in note 4(b).

30 DEFERRED GOVERNMENT GRANTS

At 31 December 2019, the balance represented deferred government grant of HK$26,004,000 (2018: HK$22,430,000) received from certain local governments. Local governments performed regular assessments on whether the attached conditions are properly fulfilled. Grants that have fulfilled the required conditions are recognised as "other income" in the consolidated statement of profit or loss.

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31 BANK AND OTHER BORROWINGS

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

		2019			2018		
	Notes	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		346,425	157,980	504,405	22,772	443,677	466,449

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	–	–	–
	169,155	124,869	335,250	341,580

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 KCT 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32 DEFERRED TAXATION

The following is the major deferred tax liability recognised and movements thereon during the current and prior periods:

	Fair value change of financial assets at FVOCI HK$'000
At 1 January 2018	(159,086)
Credited to the other comprehensive income	81,140
Currency translation differences	8,241
At 31 December 2018	(69,705)
At 1 January 2019	**(69,705)**
Credited to the other comprehensive income	**8,993**
Currency translation differences	**1,291**
At 31 December 2019	**(59,421)**

As at 31 December 2019, the Group had unrecognised tax losses of approximately of HK$794,268,000 (2018: HK$704,532,000) available for offset against future profits. No deferred tax asset has been recognised for such losses due to the unpredictability of future profit streams. The tax losses in PRC may be carried forward for 5 years. The tax losses in Hong Kong and New Zealand have no expiry date. Unrecognised tax losses of HK$191,974,000 (2018: HK$279,631,000) have no expiry date, the remaining losses will expire at variable dates up to 2024.

Deferred income tax liabilities have not been recognised for the withholding tax that would be payable on the unremitted earnings of certain PRC subsidiaries is HK$Nil for both of the years ended 31 December 2019 and 2018 and as at 31 December 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33 SHARE CAPITAL

	Number of shares	Equivalent to
		HK$'000
Ordinary shares		
Authorised:		
Ordinary shares of HK$0.01 each at 1 January 2018 and 31 December 2018 and 2019	7,316,666,668	73,167
Issued and fully paid:		
At 1 January 2018 and 31 December 2018 and 2019	6,156,928,860	61,569

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

34 OTHER RESERVES

	Share premium HK$'000	Financial assets at fair value through other comprehensive income reserve HK$'000	Capital reserve HK$'000 (note a)	Contributed surplus HK$'000 (note b)	Share-based payment reserve HK$'000 (note c)	Exchange translation reserve HK$'000	Total HK$'000
At 1 January 2018	2,339,550	(363,041)	17,683	103,941	38,479	22,640	2,159,252
Currency translation differences	–	–	–	–	–	(78,136)	(78,136)
Deemed disposal of a subsidiary	–	–	–	–	–	205	205
Fair value changes of financial assets at fair value through other comprehensive income, net of deferred tax	–	(539,643)	–	–	–	–	(539,643)
Other comprehensive loss for the year	–	(539,643)	–	–	–	(77,931)	(617,574)
Share-based payment compensation	–	–	–	–	8,066	–	8,066
Change in shareholding in an existing subsidiary without change of control	–	–	217	–	–	–	217
At 31 December 2018	2,339,550	(902,684)	17,900	103,941	46,545	(55,291)	1,549,961
At 1 January 2019	**2,339,550**	**(902,684)**	**17,900**	**103,941**	**46,545**	**(55,291)**	**1,549,961**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**(13,958)**	**(13,958)**
Fair value changes of financial assets at fair value through other comprehensive income, net of deferred tax	**–**	**(75,335)**	**–**	**–**	**–**	**–**	**(75,335)**
Other comprehensive loss for the year	**–**	**(75,335)**	**–**	**–**	**–**	**(13,958)**	**(89,293)**
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	**–**	**7,086**	**–**	**–**	**–**	**–**	**7,086**
Transfer of share-based payment reserve upon the expiry of share options	**–**	**–**	**–**	**–**	**(46,545)**	**–**	**(46,545)**
At 31 December 2019	**2,339,550**	**(970,933)**	**17,900**	**103,941**	**–**	**(69,249)**	**1,421,209**

Note:

(a) The balance of capital reserve represents the capital reserve arising from the Group's restructuring which took place in 1992.

(b) The balance of contributed surplus arose as result of the Company's capital reduction exercises which took place in the financial years of 2003 and 2006.

(c) The balance of share-based payment reserve represents share options granted on 30 September 2015.

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35 RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

The Group operates a Mandatory Provident Fund Scheme ("MPF" Scheme) for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which is matched by employees. The total costs charged to the consolidated statement of profit or loss of approximately HK$14,000 for the year ended 31 December 2019 (2018: HK$75,000) represent retirement benefit contributions payable to the MPF Scheme by the Group.

The employees of the subsidiaries in the PRC and overseas are members of a state-managed retirement benefit scheme operated by their government. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. The total costs charged to the consolidated statement of profit or loss of approximately HK$5,690,000 for the year ended 31 December 2019 (2018: HK$10,609,000) represent retirement benefit contributions payable to this scheme by the Group.

36 SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 31 July 2012, a share option scheme (the "Scheme") was adopted by the Company. The purpose of the Scheme is to enable the Company to provide incentive to participants in recognition of their contribution to the Group. The directors of the Company may offer to grant any employee or director of the Company or any adviser, consultant, agent, contractor, customers and supplier of any member of the Group or whom the Board in its sole discretion considers eligible for the scheme on the basis of his or her contribution to the Group.

On 30 September 2015, a total of 70,000,000 new share options under the Scheme were granted (the "2015 Share Options"). The details of these share options are summarised as follows:

	% of the total share	2015 Share Options Vesting period	 Exercisable period
Tranche 1	33%	30 September 2015 to 30 September 2016	30 September 2016 to 29 September 2019
Tranche 2	33%	30 September 2015 to 30 September 2017	30 September 2017 to 29 September 2019
Tranche 3	34%	30 September 2015 to 30 September 2018	30 September 2018 to 29 September 2019

	2015 Share Options
Recognised as expenses for the year ended 31 December 2019 (HK$)	–
Recognised as expenses for the year ended 31 December 2018 (HK$)	8,066,000
Number of share options granted to executive directors of the Company	15,900,000
Number of share options granted to employees of the Company	54,100,000
Total number of share options granted	70,000,000
Exercise price (HK$)	1.604
Grant date	30 September 2015
Fair value on grant date (HK$)	46,545,000

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For the year ended 31 December 2019

36 SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table lists the inputs to the fair value as at 30 September 2015 of 2015 Share Options:

	2015 Share Options
Share price at the date of grant (HK$)	1.590
Exercise price (HK$)	1.604
Expected volatility	56.28%
Risk-free interest rate (%)	0.78%
Exercise multiple	2.2-2.8
Expected dividend yield	Nil

The following table discloses movements of the Company's 2015 Share Options held by employees and directors during the year:

	2019 Number of options	2018 Number of options
Outstanding at 1 January	**70,000,000**	70,000,000
Exercised during the year	**–**	–
Forfeited during the year	**–**	–
Expired during the year	**(70,000,000)**	–
Outstanding at 31 December	**–**	70,000,000

No share-based payment expenses were recognised by the Group for the year ended 31 December 2019 (2018: HK$8,066,000) in relation to share options granted by the Company. There were also no share-based payment expenses recognised by the Group in relation to share option granted by its subsidiaries for the years ended 31 December 2019 and 2018 and all the share options granted by the Group's subsidiaries were expired during the year ended 31 December 2019. The directors of the Company consider that the financial impact of the share-based payments granted by the subsidiaries is not material to the Group.

As at 31 December 2019, there were no exercisable share options. As at 31 December 2018, 70,000,000 share options were exercisable and had remaining contractual life of 0.75 year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37 RELATED PARTY TRANSACTIONS

(a) Immediate and ultimate holding company

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

(b) Related party balances

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

	Note	2019 HK$'000	2018 HK$'000
Trade receivables			
– Photon Technology Limited ("Photon Technology")	(i)	**–**	8,457
Loan and interest receivables			
– Zwipe AS	25(b), 26(a)	**–**	13,367
– Solar Ship	26(c)	**22,378**	22,378
Less: Impairment	26(c)	**(22,378)**	(22,378)
Trade payables			
– 深圳超材料技術有限公司 ("深圳超材")		**(83)**	–

(c) Related party transactions

Name of parties	Nature of transactions	Note	2019 HK$'000	2018 HK$'000
深圳超材	Purchases of materials	(i)	**5,744**	–
深圳光啟先進結構技術有限公司(「深圳光啟先進」)	Purchases of materials	(i)	**322**	–
Zwipe AS	Interest income	(ii)	**161**	1,283
SkyX	Interest income		**–**	206

Notes:

(i) The director and controlling shareholder of the Company, Dr. Liu R, is a controlling shareholder of Photon Technology, 深圳超材 and 深圳光啟先進. The above transactions were conducted in the normal course of business of the Company and charged at terms mutually agreed by the parties concerned or in accordance with the terms of the underlying agreements, where appropriate.

(ii) The interest income was arisen from the loan advanced to Zwipe as disclosed in note 26. Both Dr. Liu R. (the controlling shareholder and executive director of the Company) and Huang Weizi (spouse of Dr. Liu R) are directors of Zwipe AS. In addition, Photon Future Limited holds approximately 20% shares of Zwipe AS.

(iii) As at 31 December 2019, a company which is controlled by Dr. Liu R provided a guarantee to a bank for the Group's banking facilities amounted to HK$316,186,000 (2018: 398,510,000), of which HK$169,155,000 were utilised as at 31 December 2019 (2018: HK$124,869,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

37 RELATED PARTY TRANSACTIONS (Continued)

(d) Compensation of key management personnel

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

	2019	2018
	HK$'000	HK$'000
Salaries and other short-term benefits	**7,747**	7,185
Discretionary business	**1,650**	2,694
Retirement benefit scheme contributions	**190**	47
Share-based payments	**–**	1,216
	9,587	11,142

38 ACQUISITIONS OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

(a) Acquisition of Shine Silver Limited

On 27 December 2019, the Group entered into a sales and purchase agreement with a vendor pursuant to which the Group agreed to acquire and the vendor agreed to sell the entire equity interest of Shine Silver Limited ("Shine Silver") and its subsidiaries at a cash consideration of HK$34,200,000. Shine Silver and its subsidiaries did not carry out any business and the sole purpose of acquiring the shares of Shine Silver was to acquire a property held by its subsidiary in Shanghai, the PRC, therefore, the directors of the Company are of the view that the acquisition did not constitute to a business combination and was account for an acquisition of assets through acquisition of the subsidiaries. The transaction was completed on 27 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38 ACQUISITIONS OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES (Continued)

(a) Acquisition of Shine Silver Limited (Continued)

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

	HK$'000
Property, plant and equipment	3,945
Right-of-use assets	32,057
Prepayments and other receivables	11
Cash and cash equivalents	2
Accruals and other payables	(1,815)
Fair value of net asset acquired	34,200

Consideration transferred:	HK$'000
Cash paid	10,260
Consideration payables	23,940
Total consideration	34,200

As at 31 December 2019, part of the consideration amounted to HK$23,940,000 remained unsettled and was recorded as consideration payables and included in trade and other payables (note 28).

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

	HK$'000
Cash consideration	34,200
Less: Consideration payables	(23,940)
Cash and cash equivalents acquired	(2)
	10,258

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38 ACQUISITIONS OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES (Continued)

(b) Acquisition of Fully Gain Group Limited

On 27 December 2019, the Group entered into a sales and purchase agreement with a vendor pursuant to which the Group agreed to acquire and the vendor agreed to sell the entire equity interest of Fully Gain Group Limited ("Fully Gain") and its subsidiaries at a cash consideration of HK$35,900,000. Fully Gain and its subsidiaries did not carry out any business and the sole purpose of acquiring the shares of Fully Gain was to acquire a property held by its subsidiary in Shanghai, the PRC, therefore, the directors of the Company are of the view that the acquisition did not constitute to a business combination and was account for an acquisition of assets through acquisition of the subsidiaries. The transaction was completed on 27 December 2019.

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

	HK$'000
Property, plant and equipment	4,069
Right-of-use assets	33,896
Prepayments and other receivables	11
Cash and cash equivalents	2
Accruals and other payables	(2,078)
Fair value of net assets acquired	35,900

Consideration transferred:	HK$'000
Cash paid	10,770
Consideration payables	25,130
Total consideration	35,900

As at 31 December 2019, part of the consideration amounted to HK$25,130,000 remained unsettled and was recorded as consideration payables and included in trade and other payables (note 28).

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

	HK$'000
Cash consideration	35,900
Less: Consideration payables	(25,130)
Cash and cash equivalents acquired	(2)
	10,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39 DEEMED DISPOSAL OF SUBSIDIARIES

On 9 August 2018, the Company and a new investor (together, the "Investors") entered into a preferred share purchase agreement pursuant to which SkyX agreed to issue new shares to the Investors and the Investors also acquired additional interest from existing shareholders. After the investment by the Investors, the Group's equity interest in SkyX was decreased from 64.92% to 53.2% and only 2 out of 5 directors could be nominated by the Group. The Group was therefore unable to control the board of SkyX and resulting in a loss in control over SkyX.

The assets and liabilities of SkyX were deconsolidated from the Group's consolidated statement of financial position and the interest in SkyX has been accounted for as an associate using equity method. The fair value of the 53.2% retained interest in SkyX at the date on which the control was lost is regarded as the cost on initial recognition of the investment in SkyX as an associate.

(i) Details of the disposal were as follows:

	HK$'000
Fair value of retained interest held by the Group (note 19(b))	40,825
Goodwill	(9,264)
Net deficit disposed of	17,274
Non-controlling interest	(14,271)
Cumulative exchange difference in respect of the net assets of SkyX reclassified from equity to profit or loss	(205)
Gain on deemed disposal	34,359

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39 DEEMED DISPOSAL OF SUBSIDIARIES (Continued)

(ii) The carrying amounts of assets and liabilities as at the date of which control was lost were as follows:

	HK$'000
Intangible assets	5,032
Property, plant and equipment	830
Trade and other receivables and prepayments	269
Income tax recoverable	616
Cash and cash equivalents	5,302
Total assets	12,049
Trade payables	(2,558)
Other payables and accruals	(26,765)
Total liabilities	(29,323)
Net liabilities	(17,274)

(iii) An analysis of the net cash outflow of cash and cash equivalents in respect of deemed disposal of a subsidiary is as follows:

	HK$'000
Proceeds received in cash	–
Cash in subsidiary disposed of	(5,302)
Net cash outflow on deemed disposal	(5,302)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

40 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit for the year to cash used in operations:

	Note	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES			
Loss before tax from continuing operations		**(293,114)**	(429,995)
Loss before tax from discontinued operation	14	**(613)**	(64,169)
Loss before tax		**(293,727)**	(494,164)
Adjustments for:			
Depreciation of property, plant and equipment		**10,233**	10,030
Amortisation of intangible assets		**5,043**	6,147
Amortisation of prepaid land lease payments		**–**	2,341
Amortisation of right-of-use assets		**11,233**	–
Write-down of inventories		**3,313**	12,894
Dividend income		**–**	(549)
Finance income		**(1,343)**	(4,669)
Gain on deregistration of subsidiaries		**(93)**	–
Gain on deemed partial disposal of associates		**(5,987)**	–
(Gain)/loss on disposal of property, plant and equipment		**(479)**	3,200
Impairment loss on property, plant and equipment		**3,200**	10,020
Impairment loss on right-of-use assets		**7,253**	–
Impairment loss on investments in associates		**38,767**	–
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 prepayment and other receivables		**1,376**	6,159
Finance costs		**22,623**	23,692
Share of results of associates		**27,900**	7,340
Gain on deemed disposal of a subsidiary		**–**	(34,359)
Share-based payment expenses		**–**	8,066
Foreign exchange net		**4,638**	22,460
Operating cash flows before movements in working capital		**(133,784)**	(270,430)
Changes in inventories		**(793)**	2,519
Changes in trade and other receivables		**17,446**	(104,099)
Changes in contract assets		**375**	(22,482)
Changes in trade and other payables		**(28,488)**	(75,152)
Changes in contract liabilities		**3,904**	4,043
Changes in long-term deposits, prepayments and other receivables		**1,925**	(9,243)
Changes in deferred government grants		**3,990**	11,499
Cash used in operations		**(135,425)**	(463,345)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Reconciliation of liabilities arising from financing activities

	Lease liabilities HK$'000	Bank borrowings HK$'000	Other borrowings HK$'000	Consideration payable for acquisition of non-controlling interests HK$'000	Total HK$'000
At 1 January 2018	–	35,238	360,955	–	396,193
Cash flows	–	94,480	–	(5,144)	89,336
Currency translation differences	–	(5,088)	(20,053)	–	(25,141)
Accrued interest	–	239	678	–	917
Acquisition of non-controlling interests	–	–	–	11,213	11,213
At 31 December 2018	–	124,869	341,580	6,069	472,518
At 1 January 2019	**–**	**124,869**	**341,580**	**6,069**	**472,518**
Recognised on adoption of HKFRS 16 (note 4)	**3,382**	**–**	**–**	**–**	**3,382**
At 1 January 2019, as restated	**3,382**	**124,869**	**341,580**	**6,069**	**475,900**
Cash flows	**(1,075)**	**46,600**	**–**	**(6,040)**	**39,485**
Acquisition of leases	**1,605**	**–**	**–**	**–**	**1,605**
Termination of leases	**(2,130)**	**–**	**–**	**–**	**(2,130)**
Currency translation differences	**(16)**	**(2,314)**	**(6,330)**	**(29)**	**(8,689)**
At 31 December 2019	**1,766**	**169,155**	**335,250**	**–**	**506,171**

(c) Total cash outflow for leases

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

	2019 HK$'000	2018 HK$'000
Within operating cash flows	**9,765**	40,230
Within financing cash flows	**1,075**	–
	10,840	40,230

The adoption of HKFRS 16 introduces a change in classification of cash flows of certain rental paid on leases. The comparative amounts have not been restated. These amounts related to lease rentals paid for the year ended 31 December 2019 was HK$10,840,000 (2018: HK$40,230,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41 OPERATING LEASES

At the end of the period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2019 **HK$'000**	2018 HK$'000
Not later than 1 year	**1,195**	3,692
Later than 1 year and no later than 5 years	**–**	2,640
	1,195	6,332

As at 31 December 2019, operating leases related to factory and offices with lease terms of 1 year (2018: 1 to 3 years). The Group does not have an option to purchase the leased assets at the expiry of the lease period.

42 COMMITMENTS

	2019 **HK$'000**	2018 HK$'000
Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows		
Property, plant and equipment	**35,464**	204,788

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

43 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(a) Details of the Company's principal subsidiaries as at 31 December 2019 and 2018 are disclosed as follows:

The principal subsidiaries of the Group at 31 December 2019 and 2018 are set out below. They have share capital consisting solely of ordinary shares and potential ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group.

Name of subsidiary	Place of incorporation	Principal place of business	Issued and fully paid share/ registered capital	Percentage of nominal value of issued share/registered capital directly held by the Company		Principal activities
				31 Dec 2019	31 Dec 2018	
Direct subsidiaries						
Kuang Chi Science Holdings Limited	HK	HK	HK$1	**100%**	100%	Provision of administrative services
MACL	New Zealand	New Zealand	NZD39,304,595	**52.01%**	52.01%	Development and commercialisation of the Martin Jetpacks
Indirect subsidiaries						
* Shenzhen Kuang Chi Space Technology Limited *深圳光啟空間技術有限公司	PRC	PRC	USD50,000,000	**100%**	100%	Provision of in-depth space services and other innovative technology business
* Dongguan Space Technology City Company Limited *東莞空間科技城實業有限公司	PRC	PRC	USD35,000,000	**100%**	100%	Provision of innovative technology business
* Dongguan Advanced Technology Institute *東莞前沿技術研究院	PRC	PRC	RMB10,000,000	**100%**	100%	Provision of innovative technology business
* Shenzhen Kuang-Chi Dream Technology Company Limited *深圳光啟夢想科技有限公司	PRC	PRC	USD70,000,000	**100%**	100%	Provision of in-depth space services and other innovative technology business
# Shenzhen Kuang-Chi Manned Space Technology Company Limited #深圳光啟載人空間技術有限公司	PRC	PRC	RMB40,000,000	**100%**	100%	Provision of in-depth space services and other innovative technology business
*Xian KuangChi Intelligent Technology Limited. *西安光啟智能技術有限公司	PRC	PRC	RMB10,000,000	**100%**	100%	Provision of innovative technology business
*Chengdu KuangChi Space Technology Limited *成都光啟空間科技有限公司	PRC	PRC	RMB1,000,000	**100%**	100%	Provision of innovative technology business
##Zhongjing KuangChi Science Technology (HK) Co., Limited 中京光啟科學技術(香港)有限公司	HK	HK	HK$5,000,000	**50%**	50%	Trading of chips
裕正貿易(上海)有限公司	PRC	PRC	RMB20,000,000	**100%**	N/A	Property holding
順耀投資諮詢(上海)有限公司	PRC	PRC	RMB20,000,000	**100%**	N/A	Property holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

43 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

(a) Details of the Company's principal subsidiaries as at 31 December 2019 and 2018 are disclosed as follows: (Continued)

Note:

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

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

\# Sino-foreign joint venture company under PRC law.

\## As the Group could nominate 3 out of 5 directors in the board. the directors of the Company are of the view that the Group has control over this subsidiary.

(b) During the year ended 31 December 2018, the Group entered into agreements to acquire additional 20% equity interest in a subsidiary namely, 深圳光啟載人空間技術有限公司（"光啟載人"） from a non-controlling shareholder at a total consideration of RMB9,330,000 (equivalent to HK$11,213,000). The Group's interest in 光啟載人 is increased from 80% to 100% upon completion of the transaction. The increase in equity interest in 光啟載人 does not result in any changes of the Group's control over 光啟載人 and is accounted for as equity transaction. The surplus of HK$1,297,000 representing the difference between the consideration of HK$11,213,000 and the amount of non-controlling interest HK$9,916,000 was recorded in reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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

	Note	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Investment in subsidiaries		**216,343**	407,346
Amounts due from subsidiaries		**745,090**	810,413
Investment in associates		**–**	73,991
Financial assets at fair value through other comprehensive income		**–**	13,364
Total non-current assets		**961,433**	1,305,114
CURRENT ASSETS			
Prepayment and other receivables		**25**	4,299
Loan receivables		**–**	9,731
Bank balances and cash		**57,138**	61,349
Total current assets		**57,163**	75,379
CURRENT LIABILITIES			
Other payables and accruals		**51,374**	2,938
Amount due to a subsidiary		**358**	178
Total current liabilities		**51,732**	3,116
NET CURRENT ASSETS		**5,431**	72,263
TOTAL ASSET LESS CURRENT LIABILITIES		**966,864**	1,377,377
CAPITAL AND RESERVES			
Share capital	33	**61,569**	61,569
Reserves		**905,295**	1,315,808
TOTAL EQUITY		**966,864**	1,377,377

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Movement in reserves

	Share Premium HK$'000	Contributed surplus HK$'000	Financial assets at fair value through other comprehensive income reserve HK$'000	Accumulated losses HK$'000	Shares-based payment reserve HK$'000	Total HK$'000
At 1 January 2018	2,339,550	103,941	–	(220,500)	38,479	2,261,470
Loss and total comprehensive loss for the year	–	–	–	(953,728)	–	(953,728)
Share based compensation	–	–	–	–	8,066	8,066
At 31 December 2018	2,339,550	103,941	–	(1,174,228)	46,545	1,315,808
At 1 January 2019	**2,339,550**	**103,941**	**–**	**(1,174,228)**	**46,545**	**1,315,808**
Loss for the year	**–**	**–**	**–**	**(397,149)**	**–**	**(397,149)**
Other compensation loss of the year						
– Changes in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	**–**	**–**	**(13,364)**	**–**	**–**	**(13,364)**
Total compensation loss of the year	**–**	**–**	**(13,364)**	**(397,149)**	**–**	**(410,513)**
Transfer of share-based payment reserve upon the expiry or forfeiture of share options	**–**	**–**	**–**	**46,545**	**(46,545)**	**–**
Transfer of fair value reserve upon the disposal of equity instruments at fair value through other comprehensive income	**–**	**–**	**7,978**	**(7,978)**	**–**	**–**
At 31 December 2019	**2,339,550**	**103,941**	**(5,386)**	**(1,532,810)**	**–**	**905,295**

45 EVENTS AFTER THE REPORTING PERIOD

In early 2020, the Group's operation has been affected by quarantine measures imposed by the local government to contain the COVID-19 outbreak. The Group has been paying close attention to the impact of the situation on its operation and taking all possible and reasonable measures to mitigate and limit the impact on the Group's operation. As the extent to which the COVID-19 outbreak will continue is uncertain, the overall financial effect that the COVID-19 outbreak may have on the Group's businesses and financial results cannot be reliably estimated as at the date when these financial statements are authorized to issue.

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	Year ended 31 December				
	2015 HK$'000	2016 HK$'000	2017 HK$'000 (Restated)	2018 HK$'000	**2019** **HK$'000**
Revenue	279,162	290,492	306,192	158,406	**60,822**
Profit/(loss) before tax	42,982	737,464	283,471	(429,995)	**(293,114)**
Income tax expense	(14,761)	(140,430)	(99,225)	(3,452)	**–**
Profit/(loss) for the year from continuing operations	28,221	597,034	184,246	(433,447)	**(293,114)**
Loss for the year from discontinued operation	(33,205)	(490)	(250,858)	(64,169)	**(613)**
Profit/(loss) for the year	(4,984)	596,544	(66,612)	(497,616)	**(293,727)**
Attributable to:					
Owners of the Company	30,012	664,315	66,051	(457,609)	**(294,436)**
Non-controlling interest	(34,996)	(67,771)	(132,663)	(40,007)	**709**
	(4,984)	596,544	(66,612)	(497,616)	**(293,727)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
Total assets	2,457,909	3,504,108	3,333,301	2,148,823	**1,842,236**
Total liabilities	(282,911)	(774,397)	(799,252)	(716,908)	**(793,864)**
	2,174,998	2,729,711	2,534,049	1,431,915	**1,048,372**
Share capital	57,137	60,894	61,569	61,569	**61,569**
Preferred share	3,757	–	–	–	**–**
Reserves	1,861,237	2,400,041	2,396,896	1,328,482	**962,507**
Equity attributable to owners of the Company	1,922,131	2,460,935	2,458,465	1,390,051	**1,024,076**
Non-controlling interest	252,867	268,776	75,584	41,864	**24,296**
Total equity	2,174,998	2,729,711	2,534,049	1,431,915	**1,048,372**