

# KUANGCHI SCIENCE LIMITED

Incorporated in Bermuda with limited liability | Stock Code: 439



KUANGCHI 光啟科學

## 2020 Annual Report



# CONTENTS

CORPORATE INFORMATION	2
MANAGEMENT DISCUSSION AND ANALYSIS	3
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT	7
BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT	30
DIRECTORS' REPORT	33
CORPORATE GOVERNANCE REPORT	47
INDEPENDENT AUDITOR'S REPORT	59
CONSOLIDATED STATEMENT OF PROFIT OR LOSS	64
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	66
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	67
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	69
CONSOLIDATED STATEMENT OF CASH FLOWS	70
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	71
FIVE-YEAR FINANCIAL SUMMARY	154



# 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. Wong Kai Kit

Mr. Choi Wing Koon

Dr. Deng Ke (*Appointed on 27 July 2020*)

Dr. Liu Jun (*Resigned on 27 July 2020*)

## AUDIT COMMITTEE

Mr. Choi Wing Koon (*Chairman*)

Dr. Wong Kai Kit

Dr. Deng Ke (*Appointed on 27 July 2020*)

Dr. Liu Jun (*Resigned on 27 July 2020*)

## REMUNERATION COMMITTEE

Dr. Wong Kai Kit (*Chairman*)

Dr. Zhang Yangyang

Dr. Deng Ke (*Appointed on 27 July 2020*)

Dr. Liu Jun (*Resigned on 27 July 2020*)

## NOMINATION COMMITTEE

Dr. Liu Ruopeng (*Chairman*)

Dr. Wong Kai Kit

Dr. Deng Ke (*Appointed on 27 July 2020*)

Dr. Liu Jun (*Resigned on 27 July 2020*)

## COMPANY SECRETARY

Mr. Cheng Chi Chung Kevin

## AUDITOR

Crowe (HK) CPA Limited  
*Certified Public Accountants*

## REGISTERED OFFICE

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Bermuda

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## REGISTRARS

### Hong Kong

Tricor Secretaries Limited

Level 54, Hopewell Centre

183 Queen's Road East, Hong Kong

### Bermuda

Conyers Corporate Services (Bermuda) Limited

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

China Construction Bank

PingAn Bank Co., Ltd.

## STOCK CODE

439

# MANAGEMENT DISCUSSION AND ANALYSIS

## PERFORMANCE REVIEW AND PROSPECTS

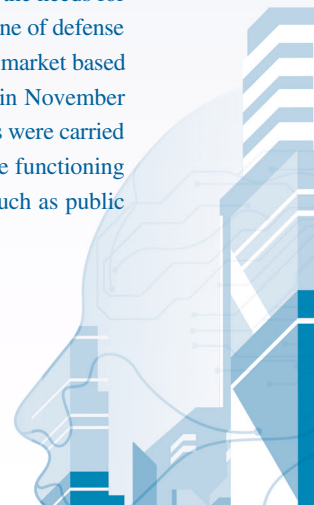
The Company and its subsidiaries (collectively, the “Group”) are mainly engaged in the development of AI technology and related innovative products and provision of AI technology services and related solutions in various vertical fields (“AI Business”). For the 12 months ended 31 December 2020 (the “Period”), the Group recorded a total revenue of approximately HK\$99 million and a net loss of approximately HK\$79 million. The gross margin of the Group rose from 16.1% for the year ended 31 December 2019 (“FY2019”) to 38.8% for the Period. The substantial increase in gross margin was attributable to the new anti-COVID smart helmet launched by the Group during the Period, whose sales accounted for 63.8% of the revenue for the Period. Moreover, the Group optimised its business operations and strengthened internal management, which greatly reduced its related expenses and administrative expenses.

### Vertically Cultivate the Fields of Education and Police Related 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 applied to aviation equipment such as Cloud and long-endurance drones in the early days, and later developed into the core business, creating an AI system with AI algorithm technology as its hit product. The AI system can be connected to a variety of fixed and mobile front-end hardware devices and empower them with AI. On this basis and with its long-term experience in system integration, the Company has integrated front-end hardware to develop integrated solutions, covering professional system integration, installation, debugging, operation and maintenance services. Our “AI” technology-infused products have been playing a significant role in real-world scenarios. During the Period, the Group gradually expanded the application of relevant products in certain vertical fields.

During the Period, in order to help fighting the COVID-19 outbreak, the Group responded quickly. Based on the experiences accumulated in AI technology over the years, it further innovated Algorithms and software leveraging on the “smart helmet” hardware customised through a related party and launched an anti-COVID smart helmet. Integrated with infrared thermal imaging and empowered by its AI technology, the device is capable of capturing temperature efficiently on a real-time dynamic basis and intelligent big data analysis, featuring non-contact remote temperature measurement and quickscreening of people with a fever. It can patrol fevered-people at super high efficiency with insensible mobility, and is characteristic of being portable, non-disturbing, unnecessary to deploy, and mobile. During the Period, this product was quickly proved itself useful and reliable in places with high density of pedestrian traffic, wide range of coverage and assembly points of large groups. Therefore, this product was purchased by many customers as an epidemic prevention tool and sold to 41 countries and regions at home and abroad.

At the same time, in view of the fact that the anti-COVID smart helmet has been well received in many places when epidemic prevention and control become normal, the Group is building an anti-COVID health information system for teachers and students in schools run by Shenzhen municipality based on the application of the anti-COVID smart helmet on campuses. Through collecting health big data, establishing on-campus epidemic records, it can improve the early warning mechanism for campus public health. By providing back-office live broadcast, remote command and other functions, the system can meet the needs for real-time coordination and remote management between competent authorities and schools, thus building a strong line of defense for campus safety. In the meantime, to strengthen public safety, the Group also further promoted and expanded the market based on the existing products and systems. The police smart helmet was widely praised at the police equipment expo in November 2020, and it was also recommended and promoted by public security departments for application. Pilot deployments were carried out in various places, including Beijing, Guangdong, Chongqing, Jiangsu and others. It significantly improved the functioning efficiency of relevant personnel. As the Group’s wearable smart products are being promoted to vertical fields such as public safety and education, the Group is also accelerating the research and development of other smart products.



## MANAGEMENT DISCUSSION AND ANALYSIS

The management believes that with the development of 5G network, Internet of things, and cloud computing technologies, the Company's AI technology will be gradually applied to more vertical industries based on its development objectives and industrial needs, and be used to develop more application products according to users' pain points and needs. There will be extensive application needs and great market prospects for AI technology in related fields.

### **Impairment losses on trade receivables and contract assets**

With reference to the Group's 2019 Annual Report ("2019 Annual Report") and 2020 Interim Report ("2020 Interim Report"), details about the impairment losses on trade receivables and contract assets are updated as follows:

For the customer located in Chengdu, the People's Republic of China ("PRC") ("Chengdu Customer"), our project team conducted several rounds of negotiations with, and managed to collect RMB45.0 million (equivalent to HK\$50.3 million) from the Chengdu Customer in the first half of 2020. The management will continue to maintain dialogue with this customer and negotiate with this customer on possible repayment options.

For the customer located in Dongguan and another customer located in Guizhou, the PRC, their business operations were generally affected by the COVID-19 pandemic during the Period. Moreover, the partial lockdown measures imposed in those regions to prevent the spread of COVID-19 made it harder for the management to negotiate with the customers in Dongguan and Guizhou. Meanwhile, these customers made great changes to their business strategies and reduced investment in related fields, so our negotiation and communication with them during the Period failed to generate plans to recover the receivables concerned.

Since the outstanding amounts due from the customers in Dongguan, Guizhou and Chengdu were not yet settled during the Period, accordingly, the Group continued to retain a full impairment provision for the relevant trade receivables and contract assets.

## **FINANCIAL REVIEW**

### **Revenue and operating performance**

The Group's revenue increased from approximately HK\$60.8 million for FY2019 to approximately HK\$99.5 million for the Period, an increase of approximately HK\$38.7 million or 63.7%. The increase was mainly due to the increase in revenue generated from the Group's AI technology products including the new anti-COVID smart helmet launched by the Group during the Period.

The net loss of the Group decreased by approximately HK\$214.3 million or 73% from approximately HK\$293.7 million for FY2019 to approximately HK\$79.4 million for the Period. The decrease is mainly due to: (i) the decrease in impairment losses on trade receivables and investment in associates; (ii) a significant decrease of approximately HK\$99.3 million in expenses compared with FY2019.

### **Manpower development**

With regard to staff development, the Company strengthened the talent training system and innovated in personnel development system to enhance staff quality. The Group will uphold the key strategy of attracting and nurturing high-calibre employees, and introduce high-tech talents in AI and other related fields from around the world. As at 31 December 2020, the Group had 110 employees, of whom approximately 19.1% have a master's degree or above. They lay a solid foundation for the further development of the Group.



# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL STRUCTURE

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

No share option scheme was launched for the year ended 31 December 2020. As at 31 December 2020, the balance of issued ordinary shares was 6,156,928,860.

The Group finances its working capital requirements through a combination of funds generated from operations and borrowings. The Group had cash and bank balance of HK\$147,812,000 as at 31 December 2020, a decrease of HK\$98,067,000 as compared to 31 December 2019.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the total shareholders' funds of the Group amounted to approximately HK\$1,938,285,000 (31 December 2019: HK\$1,048,372,000), the total assets of approximately HK\$2,843,044,000 (31 December 2019: HK\$1,842,236,000) and the total liabilities of approximately HK\$904,759,000 (31 December 2019: HK\$793,864,000).

As at 31 December 2020, the Group had bank balances and cash of approximately HK\$147,812,000 (31 December 2019: HK\$245,879,000) and the pledged bank deposits of approximately HK\$2,388,000 (31 December 2019: HK\$193,000). The gearing ratio as of 31 December 2020, defined as the percentage of the total interest-bearing debt, including lease liabilities and bank and other borrowings of approximately HK\$1,130,000 (31 December 2019: HK\$1,766,000) and HK\$496,839,000 (31 December 2019: HK\$504,405,000), respectively to net asset value, was approximately 25.70% (31 December 2019: 48.28%).

As at 31 December 2020, the total available banking facilities granted to the Group were HK\$325,317,000 (2019: HK\$316,186,000), of which HK\$144,332,000 (2019: HK\$147,031,000) were unutilised.

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.

## PLEDGE OF ASSETS

As at 31 December 2020, the right-of-use assets amounted to HK\$82,174,000 (2019: HK\$79,251,000) and construction-in-progress amounted to HK\$401,385,000 (2019: HK\$363,659,000) were pledged for the Group's bank borrowings. The bank deposits amounted to HK\$2,388,000 as at 31 December 2020 (2019: HK\$193,000) were pledged for the construction work and service contracts.

## CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no material contingent liability (2019: Nil).



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 RMB300.0 million (equivalent to approximately HK\$345.0 million). On 11 November 2016, the Group obtained the approval from the China Securities Regulatory Commission for the subscription and certain conditions of the subscription agreement have been satisfied. The subscription right is a derivative that measured at fair value through profit or loss. During the year ended 31 December 2016, the Group recognised a gain of HK\$1,021.1 million on the initial recognition of the subscription right of such shares and a loss from changes in fair value of HK\$229.9 million. The subscription has been completed and the new shares was listed on the Shenzhen Stock Exchange on 13 February 2017 and was recognised as available-for-sale financial assets on the same day. As at 13 February 2017, the fair value of the derivatives right of shares of KCT amounted to approximately HK\$1,419.7 million and hence the Group recognised a fair value gain of HK\$616.4 million upon the conversion of derivative in the consolidated statement of profit or loss. Subsequent to the completion of subscription on 13 February 2017, the Group held approximately 3.2% of the ordinary shares of KCT issued. The 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\$1,419.7 million which is the fair value of KCT as at 13 February 2017. For the year ended 31 December 2020, the fair value gain of HK\$1,116.8 million (2019 fair value loss: HK\$60.0 million) was recognised in other comprehensive income.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2020, the Group had approximately 110 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.

## FUTURE PLANS FOR MATERIAL INVESTMENTS

There was no plan authorised by the Board for any material investments or additions of capital assets, except capital commitments for property, plant and equipment as disclosed in notes 42 and 43(b) to the consolidated financial statements, as at the date of this report.





# 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 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 2020 to 31 December 2020.

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

1. Saving lives by providing relief to disaster-stricken and impoverished areas
2. Improving society by making cities smarter
3. Innovating lifestyles for a better tomorrow





# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## STAKEHOLDERS ENGAGEMENT

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

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

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

Stakeholders	Expectations of Concern	Engagement channels	Measures
<b>Government and regulatory authorities</b>	<ul style="list-style-type: none"> <li>– Comply with the laws and regulations</li> <li>– Proper tax payment</li> <li>– Promote regional economic development and employment</li> </ul>	<ul style="list-style-type: none"> <li>– On-site inspections and checks</li> <li>– Annual reports and announcements</li> <li>– Group websites</li> </ul>	<ul style="list-style-type: none"> <li>– 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</li> </ul>
<b>Shareholders and Investors</b>	<ul style="list-style-type: none"> <li>– Low risk</li> <li>– Return on the investments</li> <li>– Information disclosure and transparency</li> <li>– Protection of interests and fair treatment of shareholders</li> <li>– Comply with the laws and regulations</li> </ul>	<ul style="list-style-type: none"> <li>– Annual general meetings and other shareholder meetings</li> <li>– Annual reports and announcements</li> <li>– Group websites</li> </ul>	<ul style="list-style-type: none"> <li>– 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</li> </ul>

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders	Expectations of Concern	Engagement channels	Measures
<b>Employees</b>	<ul style="list-style-type: none"> <li>- Safeguard the rights and interests of employees</li> <li>- Good working environment</li> <li>- Career development opportunities</li> <li>- Occupational health and safety</li> <li>- Self-actualisation</li> </ul>	<ul style="list-style-type: none"> <li>- Meetings and conferences</li> <li>- Training, seminars, briefing sessions</li> <li>- Cultural and sport activities</li> <li>- Intranet and emails</li> </ul>	<ul style="list-style-type: none"> <li>- 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</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>- Legal and high-quality products/services</li> <li>- Stable relationship</li> <li>- Information transparency</li> <li>- Business ethics and integrity</li> </ul>	<ul style="list-style-type: none"> <li>- Group websites, brochures, annual reports and announcements</li> <li>- Email and customer service hotline</li> <li>- Regular meetings</li> </ul>	<ul style="list-style-type: none"> <li>- Established laboratory, strengthened quality management to ensure stable production and smooth transportation, and entered into long-term strategic cooperation agreements</li> </ul>
<b>Business partners</b>	<ul style="list-style-type: none"> <li>- Long-term partnership</li> <li>- Fair and open</li> <li>- Information resources sharing</li> <li>- Risk reduction</li> <li>- Business ethics and integrity</li> </ul>	<ul style="list-style-type: none"> <li>- Business meetings, supplier conferences, phone calls and interviews</li> <li>- On-site audit or checks</li> </ul>	<ul style="list-style-type: none"> <li>- Perform contracts according to agreements; enhance daily communication and establish cooperation with quality suppliers and contractors</li> </ul>
<b>Peers/Industry associations</b>	<ul style="list-style-type: none"> <li>- Experience sharing</li> <li>- Cooperations</li> <li>- Fair competition</li> </ul>	<ul style="list-style-type: none"> <li>- Industry conferences and meetings</li> <li>- Company visits</li> </ul>	<ul style="list-style-type: none"> <li>- 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</li> </ul>
<b>Finance Institutions</b>	<ul style="list-style-type: none"> <li>- Repayments on schedule</li> <li>- Business status</li> <li>- Operational risk</li> <li>- Business integrity</li> </ul>	<ul style="list-style-type: none"> <li>- Business conferences</li> <li>- Site visits</li> </ul>	<ul style="list-style-type: none"> <li>- Comply with regulatory requirements in a strict manner; disclose latest Company information in a timely and accurate manner according to rules and regulations</li> </ul>
<b>Public and communities</b>	<ul style="list-style-type: none"> <li>- Career opportunities</li> <li>- Community involvement</li> <li>- Environmental responsibilities</li> <li>- Social responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>- Volunteering</li> <li>- Charity and social investment</li> <li>- Annual reports and announcements</li> </ul>	



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

The Group has adopted the principle of materiality in the ESG reporting by understanding the key ESG issues that are important to the business of the Group. All the key ESG issues and key performance indicators (KPIs) are reported in the Report according to recommendations of the ESG Reporting Guide (Appendix 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 2020, those important issues to the Group were discussed in this Report.

## ESG GOVERNANCE

### Board’s oversight of ESG issues

#### *Board’s overall vision and strategy in managing ESG issues*

The board of directors (“Board”) has a primary role in overseeing the management of the Group’s sustainability issues. During the year, the Board and the ESG Working Group spent significant time in evaluating the impact of ESG-related risks on our operation and formulating relevant policy in dealing with the risks. The oversight of the Board aims to ensure the management to have all the right tools and resources to oversee the ESG issues in the context of strategy and long-term value creation.

### *ESG Working Group*

To demonstrate our commitment to transparency and accountability, our Group has established an ESG Working Group, which has clear terms of reference that set out the powers delegated to it by the Board. We highly value opinions of each stakeholder and treat them as the cornerstone for the development of the Group. During the reporting period, the ESG Working Group consisted of a non-Executive Director, three Independent Non-Executive Directors and project manager.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The ESG Working Group is primarily responsible for reviewing and supervising the ESG process, and risk management of the Group. Different ESG issues were reviewed by the Working Group at the meetings. During the reporting period, the ESG Working Group and the management reviewed the ESG governance and different ESG issues.

## Board's ESG management approach and strategy for material ESG-related issues

In order to better understand the opinions and expectations of different stakeholders on our ESG issues, materiality assessment is conducted each year. We ensure various platforms and channels of communication are used to reach, listen and respond to our key stakeholders. Through general communication with stakeholders, the Group understands the expectations and concerns from stakeholders. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impact.

The Group has evaluated the materiality and importance in ESG aspects through the steps: (1) material ESG area identification by industry benchmarking; (2) key ESG area prioritization with stakeholder engagement; and (3) validation and determining material ESG issues based on results of communication among stakeholders and the management. Hence, this can enhance understanding of their degree and change of attention to each significant ESG issue, and can enable us to more comprehensively plan our sustainable development work in the future. Those important and material ESG areas identified during our material assessment were discussed in this Report.

## Board review progress against ESG-related goals and targets

The progress of ESG target implementation and the ESG performance of the goals and targets should be closely reviewed from time to time. Rectification may be needed if the progress falls short of expectation. Effective communication about the goals and target process with key stakeholders is essential, as this enables them to be engaged in the implementation process, and to feel they are part of the change that the company aspires to achieve.

Setting strategic goals for the coming three to five years enables the company to develop a realistic roadmap and focus on results in achieving the visions.

Setting ESG targets requires the ESG Working Group to carefully examine the attainability of the targets which should be weighed against the company's ambitions and goals. The ESG Working Group will specify whether the ESG target is to be set on an absolute basis or intensity basis is essential for target setting.

## A. ENVIRONMENTAL ASPECTS

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

### A1: EMISSIONS

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



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Air Pollutants Emission

Air pollutants emission control is vital to both environmental protection and health of employees. Emission from the Group's operation complies with the Emission Limits of Air Pollutants (DB44/27-2001) in the PRC. For example, exhaust gas treatment facilities require regular maintenance to secure that they meet the local emission standard. Containers for chemicals storage are sealed properly to prevent leakage. Air pollutants emission of the Group mainly came from vehicles. The increase in air pollutants emission in 2020 was mainly attributable to the increase in sales of wearable smart helmets, super intelligent tracking system and chips during the year.

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

Air Pollutants Emission	Unit	HK	PRC	2020 Total	2019 Total
Nitrogen oxides (NO <sub>x</sub> )	kg	1.54	2.43	<b>3.97</b>	2.67
Sulfur dioxide (SO <sub>2</sub> )	kg	0.05	1.34	<b>1.39</b>	1.47
Particulate matter (PM)	kg	0.11	0.86	<b>0.97</b>	0.94

## Greenhouse Gas (GHG) Emission

Climate change is gradually concerned by the public as it does affect our daily life. GHG is considered as one of the major contributors to the climate change. The Group managed the carbon footprint by minimising the energy and water consumptions in its operation as these activities cause significant emission of GHG. The Group had adopted energy saving policy (as mentioned in the section Use of Resources) in order to reduce the carbon footprint. During the reporting period, our GHG emission scopes 1 and 2 mainly came from mobile combustion for vehicles and purchased electricity. The increase in GHG emission in 2020 was mainly due to the increase in sales of wearable smart helmets, super intelligent tracking system and chips during the year.

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

GHG Emission	Unit	HK	PRC	2020 Total	2019 Total
Scope 1 <sup>1</sup>	tonnes of CO <sub>2</sub> -e	8.13	39.39	<b>47.52</b>	43.02
Scope 2 <sup>2</sup>	tonnes of CO <sub>2</sub> -e	N/A <sup>3</sup>	128.58	<b>128.58</b>	120.87 <sup>4</sup>
<b>Total</b>	tonnes of CO <sub>2</sub> -e	8.13	167.97	<b>176.10</b>	163.89 <sup>4</sup>
GHG emission intensity	tonnes of CO <sub>2</sub> -e/m <sup>2</sup>	N/A <sup>5</sup>	0.31		PRC: 0.30 <sup>4</sup> HK: N/A <sup>6</sup>

<sup>1</sup> Scope 1: Direct emissions from mobile sources by the group.

<sup>2</sup> Scope 2: Indirect emissions from purchased electricity by the group.

<sup>3</sup> The data for year 2020 was not available.

<sup>4</sup> The data for year 2019 has been restated for comparative purpose for adoption of the latest model for electricity consumption in PRC.

<sup>5</sup> The office area of Hong Kong was not available.

<sup>6</sup> The data for year 2019 was not available.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Hazardous and Non-hazardous Wastes

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

## Noise

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

## A2: USE OF RESOURCES

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

## Energy Consumption

Generally, trainings or activities are offered to employees to raise their awareness on energy saving. Energy efficiency is one of the key considerations for procurement department when purchasing machineries. The Group also establishes and implements policy of Office Environment Management Regulation to provide guidelines for employees to save energy in office. The key measures to reduce the energy consumption in office and factories 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 is recorded by responsible department and analysis is carried out to compare the usage with the same month of the previous year. If there was any substantial increase in the energy consumption, the Group will analyze the causes to rectify the problems promptly. During the reporting period, the increase in energy consumption was due to the increase in sales of wearable smart helmets, super intelligent tracking system and chips during the year.

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

Energy Consumption	Unit	HK	PRC	2020 Total	2019 Total
Purchased electricity	MWh	N/A <sup>7</sup>	153.54	<b>153.54</b>	144.46
Petrol	MWh	27.47	160.54	<b>188.01</b>	175.30
<b>Total</b>	MWh	27.47	314.08	<b>341.55</b>	319.76
Energy consumption intensity	MWh/m <sup>2</sup>	N/A <sup>8</sup>	0.58		PRC: 0.59 HK: N/A <sup>9</sup>

### Water Consumption

Water is another important resource. There was no separate record on water consumption in Hong Kong as the rents paid in Hong Kong during the year included water charges. In light of the change of water consumption from private use to public use by the PRC office, it was not feasible to provide PRC water consumption data in 2020 as there was no sub-meter 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 water consumption during the reporting period is as follow:

Water Consumption	Unit	HK	PRC	2020 Total	2019 Total
Water consumption	m <sup>3</sup>	N/A <sup>10</sup>	N/A <sup>10</sup>	<b>N/A<sup>10</sup></b>	1,956.64
Water consumption intensity	m <sup>3</sup> /m <sup>2</sup>	N/A <sup>10</sup>	N/A <sup>10</sup>		PRC: 3.59 HK: N/A <sup>11</sup>

### 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.

<sup>7</sup> The data for year 2020 was not available.

<sup>8</sup> The office area of Hong Kong was not available.

<sup>9</sup> The data for year 2019 was not available.

<sup>10</sup> The data for year 2020 was not available.

<sup>11</sup> The data for year 2019 was not available.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## A3: THE ENVIRONMENT AND NATURAL RESOURCES

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

## A4: CLIMATE CHANGE

### Governance

Our group addresses climate-related risks based on the nature of the risk to our operations. The physical impacts of climate change, including extreme weather events, or damage to facilities have immediate operational impacts and are treated as operational risks. Long-term challenges, such as emerging ESG issues and climate-related risks and opportunities, may be discussed by the Group's ESG Working Group.

Our ESG Working Group provides effective governance for integrating and addressing ESG issues, including climate change, within our business. The ESG Working Group is responsible for approving operational emissions targets for the Group and commissioning an ESG benchmarking, as well as gap analysis exercise to identify gaps in both disclosure and policy relative to best practice standards. Moreover, the ESG Working Group works closely with the Group's different operation departments, with an aim to develop consistent and enhanced approaches on addressing ESG risk issues and report to the management.

### Strategy

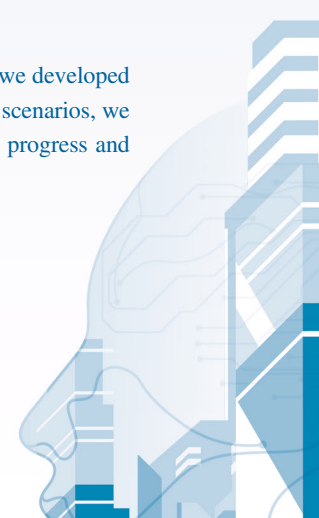
Climate change risk forms part of our overall risk profile through its role in increasing the frequency and intensity of certain diseases, and the health and mortality impacts resulting from natural disasters. We assess the overall level of risk by taking into consideration a range of diverse risk factors across the many categories in our product or services range. This diversity of risk is combined with our business strategy and broad geographic footprint helps us tackle the risk and provide protection against the impacts of short-term climate change effects.

Our products and services continue to provide protection for people in our communities against weather and heat-related disease. Besides, we plan to explore opportunities to engage our business partners and encourage them to develop climate resilience and reduce their operational carbon footprint by taking into consideration of different climate-related scenarios, including a "2°C or lower scenario" through the following steps:

#### *Step 1: Set Future Images Assuming Climate Change Effects*

As climate change measures proceeds, there is a possibility that the industry will be exposed to substantial changes, such as stricter policies including the introduction of and increases in carbon pricing, as well as advances in technology and changes in customer awareness.

In light of these climate change effects, based on the International Energy Agency ("IEA") scenarios and others, we developed multiple future images of 2030 as the external environment that will surround our Group. With regard to the IEA scenarios, we put focus on the 2°C scenario (2DS) and pictured future images in case where climate change measures do not progress and where such measures progress further (B2DS).



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## *Step 2: Consider the Impacts*

We considered the impacts on our Group for each of the future images developed in Step 1. We believe that in such a society, it will be possible to expand carbon dioxide reduction effects.

With regard to effects on raw material procurement and production, introduction of and increases in carbon pricing is anticipated in accordance with the global advance of climate change measures, leading to the possibility of higher raw material procurement and production costs.

On the other hand, in the case where climate change measures are not adequate throughout society, production interruptions and supply chain disruptions are likely to increase as a result of higher frequency and intensification of natural disasters such as flooding.

## *Step 3: Respond to the Strategies*

Our Group will begin promoting the reduction of non-renewable energy during the production. This strategy will allow for flexible and strategic responses to each demand for the regions where the emission factors of purchased electricity consumptions are high. By promoting real carbon emissions reductions throughout the world through these types of initiatives, we are working to achieve zero carbon emission in the life cycle of the product. We are also working towards zero carbon emission from the plants in the production stage and reducing carbon emissions through comprehensive energy-saving and introduction of renewable energy and hydrogen. With respect to renewable energy in particular, we have set a new target, achieve a 15 percent reduction rate for purchased electricity by 2022. With regard to the ongoing confirmation of the suitability and progress of the Group's strategies, we believe that we will have opportunities for stable funding and sustainable increases in corporate value through appropriate information disclosure, dialogue with institutional investors and other stakeholders.

## **Risk Management**

Our Group identifies the climate change related risks or to test the existing risk management strategies under climate change with the aid of risk assessment. Hence, the areas where new strategies are needed could be identified.

The risk assessment takes a standard risk-based approach using national data, local information and expert knowledge, which can identify how climate change may compound existing risks or create new ones.

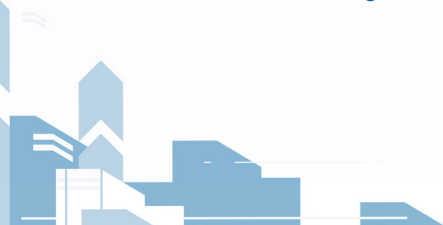
The risk assessment is conducted through the following steps:

### *Step 1: Establish the context*

- Objective/goal
- Scale
- Time frame
- Climate change scenario for most climate variables and sea level

### *Step 2: Identify existing risk (past and current)*

- Identify the record of occurrence of climatic hazard in the past in the area
- Risk management strategies in place to tackle future occurrence of the hazard



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Step 3: Identify future risk and opportunities

- Explore climate change projections for the selected time frame(s) and emission scenario(s)
- Identify potential hazards
- Investigate whether any existing risk from Step 2 may get worse under future projected changes
- Identify new risks that can emerge under future projected changes

### Step 4: Analyse and evaluate risk

- Identify a set of decision areas or systems i.e. geographical areas, business operation, assets, ecosystems, etc. that has the potential to be at risk in future

As outlined within the Governance section above, the Group has robust risk management and business planning processes that are overseen by the board of directors in order to identify, assess and manage climate-related risks. The Group engages with government and other appropriate organisations in order to keep abreast of expected and potential regulatory and/or fiscal changes. We continue to raise awareness of climate change in regard to monitoring of carbon and energy footprint in our daily operation. However, there remains gaps in understanding how such climate risks and opportunities may impact our operations, assets and profits. Our Group assesses how the business addresses climate change risks and opportunities and takes the initiative to monitor and reduce their environmental footprint.

During the reporting period, the significant climate-related physical risks and transition risks, which have impacted and/or may impact our Group, as well as the steps taken to manage these risks, are as follows:

Detailed description of risks	Financial Impact	Steps taken to manage the risks
<b>Physical Risk</b>		
Acute physical risks		
<ul style="list-style-type: none"> <li>– Increased severity and frequency of extreme weather events such as cyclones and floods, strong wind. Staff may be easily injured.</li> <li>– Also, under the extreme weather events, the costs of transportation, communications and living increase, which may lead to financial loss.</li> </ul>	<ul style="list-style-type: none"> <li>– Operating cost increases because of the injuries of staff and damage of facilities.</li> </ul>	<ul style="list-style-type: none"> <li>– Planned to adopt scenario analysis to disclose an organization’s planning under future scenarios, most notably one with in a 2°C scenario.</li> <li>– Established a natural disasters emergency plan.</li> <li>– Planned to raise the base of the building by 3 meters.</li> </ul>



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Detailed description of risks	Financial Impact	Steps taken to manage the risks
<p><b>Chronic physical risks</b></p> <ul style="list-style-type: none"> <li>– Prolonged hot weather may increase the energy consumption.</li> <li>– Sea level rise may affect factories in coastal areas, and related factories need to be relocated to more inland areas, which involves high operating costs.</li> </ul>	<ul style="list-style-type: none"> <li>– Revenue reduces from decreased production capacity and the negative impacts of workforce.</li> </ul>	<ul style="list-style-type: none"> <li>– Planned to have improvements, retrofits, relocations, or other changes to facilities that may reduce their vulnerability to climate impacts and increase the climate resilience in long term.</li> <li>– Planned to have engagement with local or national governments and local stakeholders on local resilience.</li> <li>– Planned to establish an ISO 50001 – certified Energy Management System and implemented various energy saving measures.</li> </ul>
<p><b>Transitional Risk</b></p> <p><b>Policy risk</b></p> <ul style="list-style-type: none"> <li>– As a result of energy efficiency requirements, carbon-pricing mechanisms increase the price of fossil fuels, or policies to encourage sustainable land use, hindering the area of expansion, which increase the operation cost.</li> <li>– Mandates on and regulation of existing products and services. Contractors have to spend much cost (compliance cost) to update or maintain the equipment to fulfil the new regulations.</li> </ul>	<ul style="list-style-type: none"> <li>– Operating cost increases due to increased insurance premiums for the factories.</li> </ul>	<ul style="list-style-type: none"> <li>– Planned to be involved in carbon trading and adoption of clean energy in the operations to reduce the carbon emissions.</li> <li>– Planned to purchase renewable energy sources.</li> </ul>
<p><b>Legal risk</b></p> <ul style="list-style-type: none"> <li>– Exposure to litigation. Manufacturers have to adapt the tightened law and regulations issued by the government due to climate change, and they have the risk of litigation once they failed to obligate the new rules.</li> <li>– Enhanced emissions-reporting obligations. The Group may have to spend much time on fulfilling the report standards to comply the new obligations.</li> </ul>	<ul style="list-style-type: none"> <li>– Operating cost increases for high compliance costs and increased insurance premiums for the Group.</li> </ul>	<ul style="list-style-type: none"> <li>– Monitored the updates of environmental laws and regulations and implemented GHG emissions calculations in advance.</li> </ul>



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Detailed description of risks	Financial Impact	Steps taken to manage the risks
<p><b>Technology risk</b></p> <ul style="list-style-type: none"> <li>– Developing the low carbon energy-saving products and energy saving technologies, the capital investment and R&amp;D expense increase consequently.</li> <li>– More green building strategies with low-carbon, energy-saving technologies are adopted by industry peers. Lagging behind may weaken our competitive edges.</li> </ul>	<ul style="list-style-type: none"> <li>– Capital investment in technology development increases.</li> <li>– Research and Development expenditure in technology development increase.</li> </ul>	<ul style="list-style-type: none"> <li>– Planned to invest in the innovations of energy saving products.</li> <li>– Planned to examine the feasibility and efficiency of applying the latest environmental technologies.</li> </ul>
<p><b>Market risk</b></p> <ul style="list-style-type: none"> <li>– More customers are considering climate-related risks and opportunities, which may lead to changes in customers’ demand for products.</li> <li>– Uncertainty in market signals. “How environmentally friendly the product is” becomes one of the factors to affect the product selling price.</li> <li>– Increased cost of raw materials. More environmental-friendly raw materials may be much more expensive, which may increase the cost.</li> </ul>	<ul style="list-style-type: none"> <li>– Revenue decreases for the change in revenue mix and sources.</li> <li>– Operating cost increases as abrupt and unexpected shifts in energy costs.</li> <li>– Production cost increases due to changing input prices and output requirements.</li> </ul>	<ul style="list-style-type: none"> <li>– Planned to tighten the control of the environmental hazardous materials in our products and study the application of recycled materials.</li> </ul>
<p><b>Reputational risk</b></p> <ul style="list-style-type: none"> <li>– Unable to fulfil the expectations of the customers, leading to damage of Group’s reputation and image.</li> <li>– Stigmatization of our business sector, such as more stakeholder concern or negative stakeholder feedback on the product designed in a less environmental-friendly way.</li> </ul>	<ul style="list-style-type: none"> <li>– Revenue decreases from decreased demand for goods and the decrease in production capacity.</li> <li>– Operating costs increases from negative impacts on workforce management and planning.</li> </ul>	<ul style="list-style-type: none"> <li>– Planned to support the green productions.</li> <li>– Planned to fulfill the social responsibility by organizing more activities or executing actions to demonstrate how we place importance on climate change.</li> </ul>



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the reporting period, the primary climate-related opportunities and the corresponding financial impacts are as follows:

Detailed description of opportunities	Financial Impact
<p>Resource efficiency</p> <ul style="list-style-type: none"> <li>– Reduce packaging material usage</li> <li>– Reduce water usage and consumption</li> </ul>	<ul style="list-style-type: none"> <li>– Operating cost reduces through efficiency gains and cost reductions</li> </ul>
<p>Energy source</p> <ul style="list-style-type: none"> <li>– Use of lower-emission fuel sources</li> <li>– Use of supportive policy incentives</li> <li>– Use of new technologies</li> </ul>	<ul style="list-style-type: none"> <li>– Operating cost reduces through use of lowest cost abatement</li> <li>– Returns on investment in low-emission technology increases</li> </ul>
<p>Products and services</p> <ul style="list-style-type: none"> <li>– Development and investment of low-emission products or technology through R&amp;D and innovation</li> <li>– Ability to diversify business activities</li> </ul>	<ul style="list-style-type: none"> <li>– Revenue increases through the returns on development and investment in low-emission products or technology.</li> </ul>
<p>Markets</p> <ul style="list-style-type: none"> <li>– Access to new markets</li> </ul>	<ul style="list-style-type: none"> <li>– Revenue increases through access to new and emerging markets</li> </ul>
<p>Resilience</p> <ul style="list-style-type: none"> <li>– Participation in renewable energy programs and adoption of energy-efficiency measures</li> <li>– Resource substitution or diversification</li> </ul>	<ul style="list-style-type: none"> <li>– Market valuation increases through resilience planning, such as infrastructure, land and buildings</li> <li>– Reliability of supply chain and ability to operate under various condition increases</li> <li>– Revenue increases through new products and services related to ensuring resiliency</li> </ul>



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Metrics and Targets

Our Group adopts the key metrics to measure and manage climate-related risks and opportunities. The energy consumption and greenhouse gas (GHG) emissions indicators are the key metrics used to assess and manage relevant climate-related risks where we consider such information is material and crucial for assessing the impact of our operation on global climate change during the year. Our Group tracks our energy consumption and greenhouse gas emissions indicators regularly to assess the effectiveness of emission reduction initiatives. Besides, we set targets to contribute our effort to have minimal impact on global warming. The details are described in the section A1: “Emissions” of this Report. Our Group has adopted intensity target to manage climate-related risks and opportunities and performance.

## B. SOCIAL ASPECTS

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

### B1. EMPLOYMENT

The Group expects that all employees and contractors treat one another with respect and dignity. In the Group’s policy, it has covered issues relating to compensation and dismissal, recruitment and promotion, working hours, rest period, equal opportunity, diversity anti-discrimination and other benefits and welfare. The Group strictly abides by relevant laws and regulations, such as the Labour Law of the PRC, the Labour Contract Law of the PRC and the Employment Ordinance of Hong Kong (Chapter 5 of the laws of Hong Kong). In 2020, the Group was not subject to any punishment by the government and was not involved in any lawsuit relating to employment.





# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Equal Opportunity

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

## Harassment-Free Workplace

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

At the end of the reporting period, the employees of the Group mainly located in the PRC. Below is the employee breakdown by gender, age group, geographical region, employment category and employment mode.

Employee compositions	2020	2019
<b>By gender</b>		
• Male	86%	69%
• Female	14%	31%
<b>By age group</b>		
• Age 30 or below	23%	30%
• Age 31-40	63%	50%
• Age 41-50	13%	16%
• Age 51 or above	1%	4%
<b>By geographical region</b>		
• PRC	100%	100%
• Hong Kong	–	–
<b>By employment category</b>		
• Senior management	7%	N/A <sup>12</sup>
• Middle management	20%	N/A <sup>12</sup>
• General	73%	N/A <sup>12</sup>
<b>By employment mode</b>		
• Full-time	100%	N/A <sup>12</sup>
• Contract/short term	–	N/A <sup>12</sup>

<sup>12</sup> The data for 2019 was not available.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Our Group's employee annual turnover rate breakdown by gender, age group and geographical region during the reporting period is as follows:

Employee turnover rate	2020	2019
<b>By gender</b>		
• Male	7%	80%
• Female	93%	75%
<b>By age group</b>		
• Age 30 or below	61%	97%
• Age 31-40	6%	75%
• Age 41-50	8%	67%
• Age 51 or above	–	30%
<b>By geographical region</b>		
• PRC	19%	79%
• Hong Kong	–	–
<b>Overall</b>	<b>19%</b>	<b>79%</b>

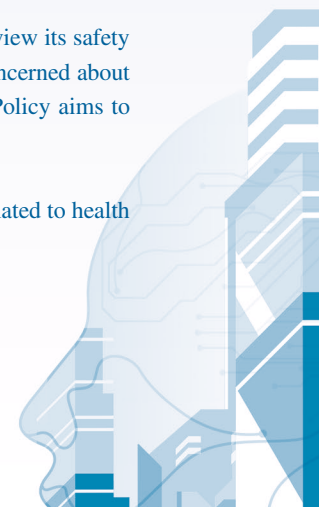
### B2: HEALTH AND SAFETY

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.

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 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 2020, the Group was not subject to any punishment by the government and was not involved in any lawsuit related to health and safety.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## B3: DEVELOPMENT AND TRAINING

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

### B3.1 Percentage of Employees Trained

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

Training	2020	2019
<b>Percentage of employees trained</b>		
<b>By gender</b>		
• Male	86%	N/A <sup>13</sup>
• Female	14%	N/A <sup>13</sup>
<b>By employment category</b>		
• Senior management	6%	N/A <sup>13</sup>
• Middle management	18%	N/A <sup>13</sup>
• General	76%	N/A <sup>13</sup>

### B3.2 Average Training Hours Completed per Employees

During the reporting period, the average training hours by gender and employment category is as follows:

Training	2020	2019
<b>Average training hours (hours/employee)</b>		
<b>By gender</b>		
• Male	2.3	N/A <sup>13</sup>
• Female	2.4	N/A <sup>13</sup>
<b>By employment category</b>		
• Senior management	3.0	N/A <sup>13</sup>
• Middle management	2.7	N/A <sup>13</sup>
• General	2.1	N/A <sup>13</sup>

## B4: LABOUR STANDARDS

The Group respects the right of employees and maintains 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 is under the age of 18 is not allowed to work in the company. In 2020, the Group was not subject to any punishment by the government and was not involved in any lawsuit relating to child and forced labour.

<sup>13</sup> The data for year 2019 was not available.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 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 ISO-9001 quality management system which demonstrates our commitment to quality and our capability to satisfy customer’s requirements. The geographical distribution of our major suppliers is as follows:

Geographical region	Number of suppliers	
	2020	2019
PRC	100	N/A <sup>14</sup>
Hong Kong	–	N/A <sup>14</sup>
Total	100	N/A <sup>14</sup>

## 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 2020, the Group was not subject to any punishment by the government and was not involved in any lawsuit relating to product responsibility.

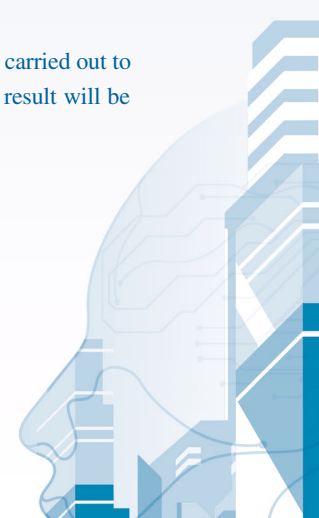
### Safety and Quality Management

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 non-conforming product is noticed, it will be decided whether to rework, accept or be considered as scrap.

### Complaint Handling

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

<sup>14</sup> The data for year 2019 was not available.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Intellectual Property Protection

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

## Customer Data Protection and Privacy

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

## B7: ANTI-CORRUPTION

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

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

To minimise the possibility of corruption, the Group's Gift Policy defines the meaning of gift and clarifies the rules in relation to giving and receiving gifts. The Group's Whistle Blower Policy encourages Board members, staff and others to report suspected or actual occurrences of illegal, unethical or inappropriate events (behaviors or practices) without retribution. In 2020, the Group was not subject to any punishment by the government and was not involved in any lawsuit related bribery, extortion, fraud and money laundering.

The Group provides training sessions of anti-corruption to the directors and staff. During the year, the number of employees received anti-corruption training and the training hours by employment category are as follows:

<b>Anti-corruption Training</b>	<b>Number of employees received training</b>	<b>Number of training hours</b>
<b>By employment category</b>		
– Board	4	8
– Senior management	7	14
– Middle management	12	24
– General	58	116
Total	81	162

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 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.

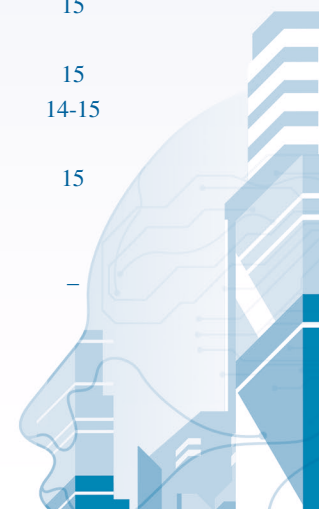
### Community Involvement

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 REPORTING INDEX

### Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)

		Section	Page
<b>A. Environmental</b>			
<b>A1: Emissions</b>			
General Disclosure		“Environmental Aspects”	12
KPI A1.1	The types of emissions and respective emissions data	“Emissions – Air Pollutants Emission”	13
KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity	“Emissions – Greenhouse Gas Emission”	13
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity	No concluded cases regarding hazardous waste were noted during the reporting period	–
KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity	No concluded cases regarding non-hazardous waste were noted during the reporting period	–
KPI A1.5	Description of measures to mitigate emissions and results achieved	“Emissions – Air Pollutants Emission”	13
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	“Emissions – Hazardous and Non-hazardous Wastes”	14
<b>A2: Use of Resources</b>			
General Disclosure		“Use of Resources”	14
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	“Use of Resources – Energy Consumption”	15
KPI A2.2	Water consumption in total and intensity	“Use of Resources – Water Consumption”	15
KPI A2.3	Description of energy use efficiency initiatives and results achieved	“Use of Resources – Energy Consumption”	14-15
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 Consumption”	15
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	–



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)		Section	Page
<b>A3: The Environment and Natural Resources</b>			
General Disclosure		“The Environment and Natural Resources”	16
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”	16
<b>A4: Climate Change</b>			
General Disclosure		“Climate Change”	16-22
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them	“Climate Change”	18-20
<b>B. Social</b>			
<b>Employment and Labour Practices</b>			
<b>B1: Employment</b>			
General Disclosure		“Employment”	22-23
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	“Employment”	23
KPI B1.2	Employee turnover rate by gender, age group and geographical region	“Employment”	24
<b>B2: Health and safety</b>			
General Disclosure		“Health and Safety”	24
KPI B2.1	Number and rate of work-related fatalities	No case of work-related fatality was noted.	–
KPI B2.2	Lost days due to work injury	No case of lost days due to work injury was noted.	–
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	“Health and Safety”	24
<b>B3: Development and Training</b>			
General Disclosure		“Development and Training”	25
KPI B3.1	The percentage of employee trained and employee category	“Development and Training”	25
KPI B3.2	The average training hours completed per employee by gender and employee category	“Development and Training”	25
<b>B4: Labour Standards</b>			
General Disclosure		“Labour Standards”	25
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	“Labour Standards”	25
KPI B4.2	Description of steps taken to eliminate such practices when discovered	“Labour Standards”	25



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)**

**Section**

**Page**

**Operating Practices**

**B5: Supply Chain Management**

General Disclosure		“Supply Chain Management”	26
KPI B5.1	Number of suppliers by geographical region	“Supply Chain Management”	26
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	“Supply Chain Management”	26

**B6: Product Responsibility**

General Disclosure		“Product Responsibility”	26
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	No product regarding safety and health reasons was recalled.	–
KPI B6.2	Number of products and service related complaints received and how they are dealt with	“Complaint Handling”	26
KPI B6.3	Description and practices relating to observing and protecting intellectual property rights	“Intellectual Property Protection”	27
KPI B6.4	Description of quality assurance process and recall procedures	“Safety and Quality Management”	26
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	“Customer Data Protection and Privacy”	27

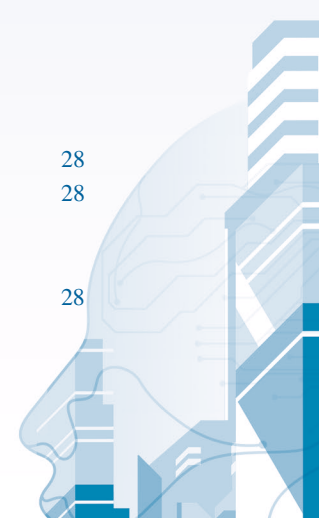
**B7: Anti-corruption**

General Disclosure		“Anti-corruption”	27
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the case	No concluded legal case regarding corrupt practices was noted.	–
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	“Anti-corruption”	27
KPI B7.3	Description of anti-corruption training provided to directors and staff	“Anti-corruption”	27

**Community**

**B8: Community Investment**

General Disclosure		“Community Investment”	28
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	“Community Investment”	28
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	“Community Investment”	28



# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Dr. Liu Ruopeng** (“Dr. Liu”), aged 37, 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 has been a chairman of Kuang-Chi Technologies Co., Ltd., a company listed on the Shenzhen Stock Exchange (security code: 002625.SZ) since 25 April 2017. Dr. Liu has extensive experience in research and development of advanced technologies and business network in relation to metamaterial, near space and other innovative technology industries. Dr. Liu has made outstanding contributions to business management, the system innovation of new-type research institutions and the construction of the Global Community of Innovation.

As of 31 December 2020, Dr. Liu was interested in certain Shares. Please refer to the section headed “Directors’ and Chief Executives’ Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation” in this report for further details.

**Dr. Zhang Yangyang** (“Dr. Zhang”) aged 41, 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 were listed in 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 41, 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 was a non-executive director of MACL from February 2015 to June 2020, 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 40, is the vice president and Chief Technology Officer of Kuang-Chi Institute of Advanced Technology. Dr. Ji joined the Company in February 2020. He was elected as a senior engineer of engineering technology in Shenzhen in 2019. He also serves as the deputy director of the State Key Laboratory of Metamaterial Electromagnetic Modulation Technology, a member of the Academic Committee and the National Standardization Committee on Electromagnetic Metamaterial Technology and Products, a fellow of the first batch of experts of Shenzhen Standard Experts Depository, and a member of the 100 Experts Committee of Artificial Intelligence and Big Data in China. He is the executive director of the computing and statistics branch of the Statistical Research Institute of China and the 10th Council of the National Statistical Society of China; the director of Shenzhen Key Laboratory of Information Science and Modeling Technology; and the director of Shenzhen Engineering Laboratory of New Materials and Computer Auxiliary Design, etc.

Dr. Ji received a doctoral degree in statistics from Duke University in the USA in 2009, and subsequently served as a postdoctoral fellow in the Statistics Department of Harvard University in 2010 and engaged in academical research. Dr. Ji has been acting as the Non-employee Representative Supervisor and the chairman of the Supervisory Committee of Kuang-Chi Technologies Co., Ltd. (a company whose shares are listed in 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. Mr. Li joined the Company in March 2020. 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 10 years of experience in audit, finance and accounting fields in Hong Kong. He previously worked in Pricewaterhouse Coopers 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.



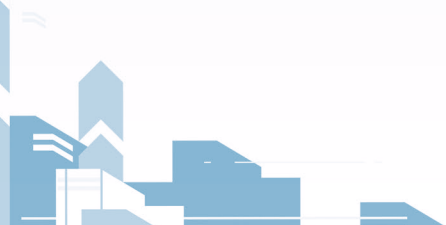
# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Wong Kai Kit** (“Dr. Wong”), aged 47, 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 in 2001, 1998 and 1996 respectively.

**Mr. Choi Wing Koon** (“Mr. Choi”), aged 44, holds a bachelor’s degree in Business Administration (Accounting) awarded by the Hong Kong University of Science and Technology in 1999. Mr. Choi joined the Company in October 2019. He also obtained a master’s degree in Business Administration awarded by the University of Hong Kong in 2014. Mr. Choi is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He has over 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.

**Dr. Deng Ke** (“Dr. Deng”), aged 38, 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. Deng joined the Company in July 2020. He graduated from Peking University in the PRC majoring in Applied Mathematics in 2003. He then studied Statistics in Peking University and obtained a doctoral degree in 2008. Dr. Deng had been principally engaged in scientific research work in the field of Statistics in Harvard University in the U.S. from 2008 to 2013. Later, he returned to the PRC and devoted himself to the scientific research work in the field of Statistics in Tsinghua University in the PRC and is currently the executive director and an associate professor (employed on a long-term contract) of the Center for Statistical Science of Tsinghua University, and also the director of the Statistical Consulting Unit (統計諮詢中心). During his service in Tsinghua University, Dr. Deng took the lead in various projects of different aspects, including risk analysis of global epidemic, risk assessment on food safety and medical big data analysis, etc. Dr. Deng is committed to nurturing students and dedicated to the academic and research contributions in Statistics.



## 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 2020.

### 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 2020.

### MAJOR CUSTOMERS AND MAJOR SUPPLIERS

During the year, the Group's five largest suppliers and the largest supplier accounted for approximately 96.2% and 76.4% respectively of the Group's total purchases. The largest supplier represented wearable smart helmets purchased by the Group under the continuing connected transactions mentioned on pages 39 to 40.

During the year, the Group's five largest customers accounted for approximately 37.2% of the Group's total sales. The largest customer accounted for approximately 15.4% of the Group's total sales.

Save as disclosed above, 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 2020 are set out in the consolidated financial statements on pages 64 to 70.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2020.

### BUSINESS REVIEW

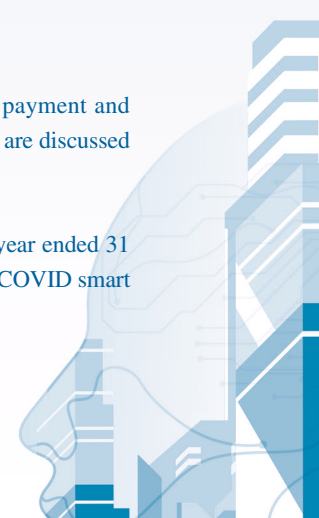
#### Overview

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 6 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 38.8% (2019: 16%) for the year ended 31 December 2020. The gross profit margin for 2020 increased as compared to that for 2019, mainly due to new anti-COVID smart helmet launched by the Group.



## 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\$218,902,000 (2019: increase by HK\$138,229,000) reflecting the decrease in other operating expenses during the year ended 31 December 2020.

The level of debt (including lease liabilities and bank and other borrowings) to equity of the Group was at a healthy level of 0.26 times as at 31 December 2020 (2019: 0.48). 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

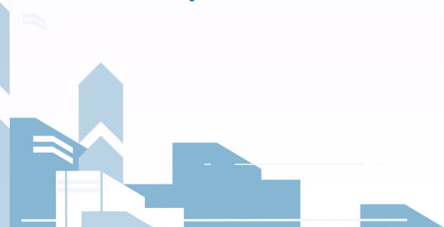
Conservation of the environment remains a key focus for the Group, the conscious minimising in consumption of resources and adoption of environmental best practices across the Group's businesses underlie our commitment to conserving and improving the environment. The Group complies with environmental 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 2020 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 2020, 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 69 and note 33, and other details of the reserves of the Company are set out in note 40 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2020, 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 32 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 2020.

## 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. Wong Kai Kit

Mr. Choi Wing Koon

Dr. Deng Ke\*\*

Dr. Liu Jun^

\* Appointed on 1 February 2020

# Resigned on 31 January 2020

® Appointed on 23 March 2020

^ Resigned on 27 July 2020

\*\* Appointed on 27 July 2020

In accordance with Bye-laws 87(1) of the Company, Dr. Luan Lin, Dr. Zhang Yangyang and Dr. Wong Kai Kit 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, Dr. Deng Ke 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 30 to 32.

## INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION

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

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS IN CONTRACTS, TRANSACTIONS AND ARRANGEMENTS OF SIGNIFICANCE

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

No contracts of significance were entered into between the Company or any of its subsidiaries and any controlling shareholder or any of its subsidiaries during the reporting period.

## PERMITTED INDEMNITY PROVISION

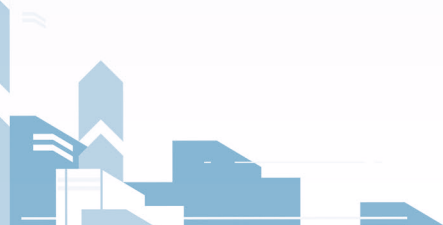
Pursuant to the Company's Bye-laws, every Director, other officer and auditor shall be entitled to be indemnified out of assets and profits of the Company against all losses or liabilities incurred or sustained by him/her as a Director, auditor or other officer of the Company about the execution of the 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 note 35 to the consolidated financial statements and the section headed "Share Option Scheme and Restricted Share Award Scheme" below.



# 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 2020 are set out in notes 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. During the year ended 31 December 2020, Dr. Liu Ruopeng and Dr. Zhang Yangyang agreed to waive the emoluments payable to them for the year ended 31 December 2020. Other than Dr. Liu Ruopeng and Dr. Zhang Yangyang, neither the chief executive nor any of the other directors waived or agreed to waive any emoluments during the year ended 31 December 2020.

## 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 2020. The Directors confirm that they have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

### Continuing connected transactions

#### *Wearable Smart Helmets*

On 30 March 2020, the Company (as purchaser) and Kuang-Chi Technologies Co., Ltd. 光啟技術股份有限公司 (“Kuang-Chi Technologies”) (as vendor) entered into the Master Procurement Agreement in respect of the procurement of the wearable smart helmets by the Group. Pursuant to the Master Procurement Agreement, Kuang-Chi Technologies and its subsidiaries (“KCT Group”) shall sell the wearable smart helmets upon request by the Group, on terms and conditions (including the selling price of the wearable smart helmets) to be agreed by the Group and KCT Group on arm’s length basis and normal commercial terms. Further details were disclosed in the announcement of the Company dated 7 May 2020.

With reference to the announcement dated 13 July 2020, the Board expected that the unexpected increase in demand for the empowered helmets after the Existing Annual Caps were approved by the independent shareholders on 22 May 2020, there would not be sufficient annual caps for the Group’s new projected procurement volume of the wearable smart helmets for three years 2020, 2021 and 2022. The Board therefore proposes to revise the Existing Annual Caps to the Revised Annual Caps in respect of the transactions contemplated under the Master Procurement Agreement. On 9 September 2020, a special general meeting was held to approve the Revised Annual Caps for the three years 2020, 2021 and 2022, and the resolution was duly passed.

The continuing connected transaction of the Company is included in the disclosure of related party transactions in note 36 to the consolidated financial statements.



## DIRECTORS' REPORT

The independent non-executive Directors had reviewed the above continuing connected transaction pursuant to Rule 14A.55 of the Listing Rules, and had confirmed that the continuing connected transaction had been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or better; and
- (3) according to the terms of the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The total amounts of the wearable smart helmets disclosed above procured during the year under review have not exceeded the Revised Annual Caps of RMB100.1 million (equivalent to approximately HK\$109.3 million) (including VAT).

Crowe (HK) CPA Limited, the Company's external auditors, were engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Crowe (HK) CPA Limited have issued their unqualified letter containing the findings and conclusions in respect of the non-exempt continuing connected transaction disclosed above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

### **Connected transactions**

Save as disclosed above, during the year, the Group did not have any other connected transactions which are required to be disclosed in this annual report.

### **Other related party transactions**

The Group entered into certain transactions with parties regarded as "related parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis.

Further details are set out in note 36 to the consolidated financial statements. Save for the continuing connected transactions as set forth in the paragraphs headed "Continuing connected transactions" above, none of the related party transactions of the Company fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company has complied with or is exempt from the disclosure requirements under Chapter 14A of the Listing Rules during the year ended 31 December 2020.



# DIRECTORS' REPORT

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2020, the following Directors or chief executives of the Company or his associates had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

Name of Director/Chief executive	Number of Shares held		Number of underlying Shares held		Approximate percentage of total issued Shares
	Personal interest	Corporate interests	Personal interest	Total	
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%

Notes:

- "L" represents long position in Shares/underlying Shares and "S" represents short position in Shares.
- 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.
- This represents the share charge given by New Horizon in favour of Everbright Fortune over 1,067,862,045 Shares owned by New Horizon.
- As of 31 December 2020, the issued shares of the company were 6,156,928,860.

Save as disclosed above, as at 31 December 2020, 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 2020, the following shareholders had interests, directly or indirectly, or short positions in the shares and underlying shares of the Company would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Substantial Shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate percentage of total issued Shares
Ms. Huang Weizi	Interest of spouse	3,078,500,000 (L)	–	3,078,500,000 (L)	50.00%
		(Note 2)			
		1,067,862,045 (S)		1,067,862,045 (S)	17.34%
New Horizon	Beneficial owner	3,078,000,000 (L)	–	3,078,000,000 (L)	49.99%
		1,067,862,045 (S)		1,067,862,045 (S)	17.34%
		(Note 3)			
Wireless Connection Innovative Technology Limited	Interest of controlled corporation	3,078,000,000 (L)	–	3,078,000,000 (L)	49.99%
		1,067,862,045 (S)		1,067,862,045 (S)	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)	–	3,078,000,000 (L)	49.99%
		1,067,862,045 (S)		1,067,862,045 (S)	17.34%
深圳大鵬光啟聯眾科技合夥企業(有限合夥) (*Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership (Limited Liability Partnership))	Interest of controlled corporation	3,078,000,000 (L)	–	3,078,000,000 (L)	49.99%
		1,067,862,045 (S)		1,067,862,045 (S)	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)	–	3,078,500,000 (L)	50.00%
		1,067,862,045 (S)		1,067,862,045 (S)	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)	–	3,078,000,000 (L)	49.99%
		1,067,862,045 (S)		1,067,862,045 (S)	17.34%
上海光大富尊瑣瑣投資中心(有限合夥) (*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)	17.34%
				(Note 9)	

\* 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:

- “L” represents long position in Shares/underlying Shares and “S” represents short position in Shares.
- 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.
- This represents the share charge given by New Horizon in favour of Everbright Fortune over 1,067,862,045 Shares owned by New Horizon.
- 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.
- 85% of equity interest of Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd is held by Everbright Fortune Investment Co., Ltd.
- 100% of equity interest of Everbright Fortune Investment Co., Ltd. is held by Everbright Securities Company Limited.
- 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 2020.
10. As at 31 December 2020, the issued shares of the company were 6,156,928,860.

Save as disclosed above, as at 31 December 2020, 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 and no share option was granted under the Share Option Scheme for the year end 31 December 2020. 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").

Under the RSA Scheme, the SA Committee shall not make any further award of restricted shares to the participants which will result in the aggregate number of shares awarded by the Board under the RSA Scheme in excess of 170,303,388 shares, representing 5% of the issued shares as at the date on which the Board adopted the RSA Scheme, i.e. 10 December 2014. In addition, the total number of new shares which may be allotted and issued to the trustee under the RSA Scheme shall not exceed 85,151,694 shares, representing 2.5% of the issued shares as at the date on which the Board adopted the RSA Scheme.

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 2020, no restricted shares were granted by the Company. During the year ended 31 December 2020, 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 2020 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 2020.

### 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 2020, 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.

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

There is no change in Director's biographical details since the date of the Interim Report 2020 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").



# DIRECTORS' REPORT

## 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.

## EVENTS AFTER THE REPORTING PERIOD

The Group disposed of a total of 15,245,891 KCT shares ("KCT Disposal") on the open market through a series of transactions during the period from 20 January 2021 to 8 February 2021, at the aggregate consideration of approximately RMB385,718,000. The average selling price of disposal of KCT shares was approximately RMB25.30. After the KCT Disposal, the estimated sale proceeds will be approximately RMB385,718,000 (HK\$459,737,000), the Group currently expects to recognize a fair value gain of approximately RMB46,500,000 (HK\$55,423,000) for the KCT Disposal in other comprehensive income for the year 2021. Upon the completion of the KCT Disposal, the Group directly held 56,282,860 ordinary shares of KCT, representing approximately 2.61% of the total issued capital of KCT.

On 7 February 2021, the Group entered into a sale and purchase agreement for the purpose of acquiring a property in Shanghai, PRC. For more details, please refer to note 43(b) to the consolidated financial statements.

## 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 2020 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 2021 AGM to re-appoint Crowe (HK) CPA Limited as auditor of the Company. Crowe (HK) CPA Limited was appointed as auditor of the Company with effect from 28 December 2018 upon the resignation of PricewaterhouseCoopers.

On behalf of the Board

**Dr. Liu Ruopeng**

*Chairman and Executive Director*

Hong Kong, 30 March 2021



# CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report of the Group for the year ended 31 December 2020.

## 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 deviation from the code provision E.1.2 of the CG Code, the Company has complied with the CG Code during the year under review.

Code provision E.1.2 of the CG Code stipulate that the chairman of the board of directors should attend annual general meetings. The Chairman of the Board of Directors, Dr. Liu Ruopeng did not attend the annual general meeting held on 29 June 2020 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. Wong Kai Kit Mr. Choi Wing Koon Dr. Deng Ke

The profiles of each Director are set out in the “Biographical Details of Directors and Senior Management” section on pages 30 to 32. 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 officer (“CEO”) of the Company. The roles of the chairman and CEO are served by different individuals to achieve a balance of authority and power. The main responsibility of the chairman is to lead the Board and manage its work to ensure that it effectively operates and fully discharges its responsibilities. Supported by the members of committees of the Board, the CEO is responsible for the day-to-day management of the Group’s business, recommending strategies to the Board, and determining and implementing operational decisions.

## Directors’ and officers’ insurance

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

## Independent Non-Executive Directors

Throughout the period and up to the date of this report, the Company has complied with the requirements under Rules 3.10 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 2020 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. Deng Ke 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 2020 are disclosed in Note 10 to the consolidated financial statements. For the year ended 31 December 2020, 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. Wong Kai Kit and Dr. Deng Ke 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 four meetings during the year ended 31 December 2020 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. Deng Ke as members.

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

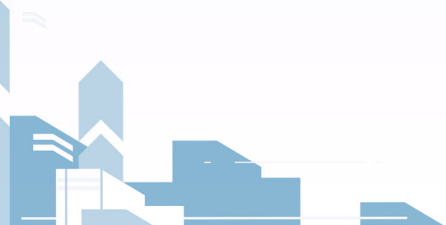
The Board adopted the Board Diversity Policy setting out the approach to diversify members of the Board since 2016 and updated in December 2018. The Company believes that a diversified perspective can be achieved through implementation of the Board Diversity Policy. The diversity of the Board members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

For the year ended 31 December 2020, one Nomination Committee meeting was held to (1.) review of the structure, size and diversity of the Board; (2.) assessment and confirmation of the independence of the independent non-executive Directors; (3.) consider the re-appointment of retiring directors at the annual general meeting of the Company, and (4.) review the board diversity policy of the Company.

## 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 five times during the year ended 31 December 2020.

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 2020 is set out in the table below:

	Meetings attended/Eligible to attend				Annual General Meeting	Special General Meeting
	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee		
<b>Executive Directors</b>						
Dr. Liu Ruopeng	2/5	N/A	N/A	0/1	0/1	0/2
Dr. Zhang Yangyang	3/5	N/A	1/1	N/A	0/1	0/2
Dr. Luan Lin	4/5	N/A	N/A	N/A	1/1	0/2
Mr. Dorian Barak*	N/A	N/A	N/A	N/A	N/A	N/A
Dr. Ji Chunlin <sup>#</sup>	2/5	N/A	N/A	N/A	0/1	1/2
<b>Non-executive Director</b>						
Mr. Li Chiu Ho <sup>@</sup>	5/5	N/A	N/A	N/A	1/1	2/2
<b>Independent Non-executive Directors</b>						
Dr. Liu Jun <sup>^</sup>	3/4	0/2	0/1	1/1	1/1	0/1
Dr. Wong Kai Kit	5/5	4/4	1/1	1/1	1/1	0/2
Mr. Choi Wing Koon	5/5	4/4	N/A	N/A	1/1	2/2
Dr. Deng Ke <sup>**</sup>	1/1	1/1	N/A	N/A	N/A	1/1

\* Resigned on 31 January 2020

<sup>#</sup> Appointed on 1 February 2020

<sup>@</sup> Appointed on 23 March 2020

<sup>^</sup> Resigned on 27 July 2020

<sup>\*\*</sup> Appointed on 27 July 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. Liu Wei Wen, the Operating Manager 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 2020, 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 2020, 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 59 to 63.

### 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 risk management and internal control systems are designed to manage rather than eliminate the risk to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board designated this responsibility to Audit Committee. The Group has established procedures in handling and dissemination of inside information in an accurate, secure and timely manner and to avoid possible mishandling of inside information within the Group. The risk management and internal control systems are reviewed and assessed on an on-going basis by the Audit Committee and the Board, and will be further reviewed and assessed at least once each year by the Board. During the year under review, the Audit Committee has conducted a review of the effectiveness and adequacy of the risk management and internal control systems of the Group covering all material controls, including financial, operational and compliance controls and risk management functions, and has reached the conclusion that the Group's risk management and internal control systems were in place, effective and adequate. As at the date of this report, the Company has an internal audit function.

### External auditor and auditor's remuneration

For the year ended 31 December 2020, 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

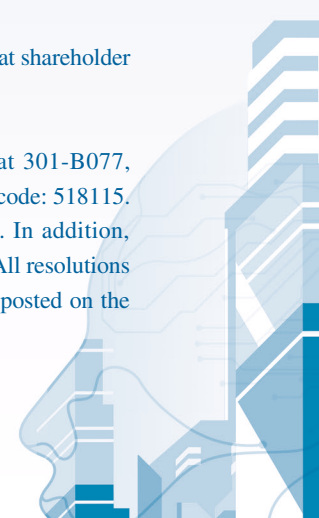
	HK\$'000
Audit services for the year	1,760
Other services	—
<b>Total</b>	<b>1,760</b>

## SHAREHOLDER RIGHTS, INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

### Shareholders' rights

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

Enquiries of shareholders can be sent to the Company by post to the Company's Shenzhen head office at 301-B077, Building 2, No. 1, Mawu Road, Baoan Community, Yuanshan Street, Longgang District, Shenzhen, PRC, Postal code: 518115. Shareholders' enquiries and concerns, where appropriate, will be forwarded to and answered by the Board. In addition, shareholders can contact the share registrar of the Company if they have any enquiries about their shareholdings. All resolutions put forward at shareholder meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Stock Exchange and the Company after each shareholder meeting.



# 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 2020, 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 64 to 153, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 (“HKSA”) 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.





# 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

#### *Recoverability of trade receivables and contract assets*

Refer to notes 5.1(b), 6, 23 and 24 to the consolidated financial statements

The carrying amounts of the Group's trade receivables and contract assets as at 31 December 2020 were HK\$165,289,000 and HK\$11,884,000, after net of allowance for expected credit loss ("ECL") of HK\$56,721,000 and HK\$11,419,000 respectively, represented approximately 6% 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\$10,484,000 and HK\$388,000 on contract assets and trade receivables 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.

### How our audit addressed the Key Audit Matter

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 2020, 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 2020, 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

*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 2020 were HK\$415,115,000 and HK\$157,913,000, respectively, represented approximately 20% 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, no impairment losses on property, plant and equipment and right-of-use assets for the year ended 31 December 2020 is considered necessary.

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.

### How our audit addressed the Key Audit Matter

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.

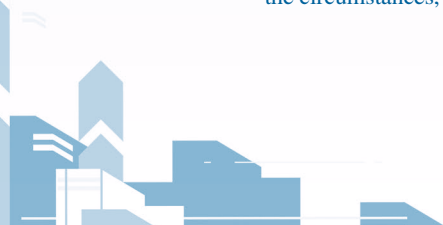
Those charged with governance are responsible for overseeing the Group's financial reporting process.

## 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 HKSAAs 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 HKSAAs, 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, actions taken to eliminate threats or safeguards applied.

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, 30 March 2021

**Chan Wai Dune, Charles**  
Practising Certificate Number P00712



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>Continuing operations</b>			
Revenue	7	99,478	60,822
Cost of sales		(60,902)	(51,009)
<b>Gross profit</b>		<b>38,576</b>	9,813
Other income	8	9,450	8,941
Other gains, net	8	14,804	4,824
Impairment loss on trade receivables	24(b)	(388)	(32,595)
(Impairment loss)/reversal of impairment loss on contract assets	24(b)	(10,484)	329
Impairment loss on investments in associates	19	–	(38,767)
Selling and distribution expenses		(19,544)	(23,562)
Research and development expenses		(41,719)	(95,155)
Administrative expenses		(35,911)	(77,759)
<b>Operating loss</b>	9	<b>(45,216)</b>	(243,931)
Finance income		1,007	1,340
Finance costs		(33,009)	(22,623)
Finance costs, net	11	(32,002)	(21,283)
Share of results of associates	19	–	(27,900)
<b>Loss before tax</b>		<b>(77,218)</b>	(293,114)
Income tax expense	13	(59)	–
<b>Loss from continuing operations</b>		<b>(77,277)</b>	(293,114)
Loss from discontinued operation	14	(2,092)	(613)
<b>Loss for the year</b>		<b>(79,369)</b>	(293,727)



## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>(Loss)/profit for the year attributable to:</b>			
Owners of the Company		<b>(78,348)</b>	(294,436)
Non-controlling interests		<b>(1,021)</b>	709
		<b>(79,369)</b>	(293,727)
<b>(Loss)/profit for the year from continuing operations attributable to:</b>			
Owners of the Company		<b>(77,249)</b>	(294,117)
Non-controlling interests		<b>(28)</b>	1,003
		<b>(77,277)</b>	(293,114)
<b>Loss for the year from discontinued operation attributable to:</b>			
Owners of the Company	14	<b>(1,099)</b>	(319)
Non-controlling interests	14	<b>(993)</b>	(294)
	14	<b>(2,092)</b>	(613)
<b>Loss per share</b>			
<b>From continuing and discontinued operations</b>			
Basic (HK cents per share)	15	<b>(1.27)</b>	(4.78)
Diluted (HK cents per share)	15	<b>(1.27)</b>	(4.78)
<b>From continuing operations</b>			
Basic (HK cents per share)	15	<b>(1.25)</b>	(4.78)
Diluted (HK cents per share)	15	<b>(1.25)</b>	(4.78)

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 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>Loss for the year</b>		<b>(79,369)</b>	(293,727)
<b>Other comprehensive income/(loss)</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Release of reserve upon deregistration of subsidiaries		(138)	(93)
Release of reserve upon disposal of a subsidiary		2	–
Exchange differences on translation of foreign operations		43,381	(14,388)
		<b>43,245</b>	(14,481)
<i>Items that will not be subsequent reclassified to profit or loss:</i>			
Changes in fair value of financial assets at fair value through other comprehensive income		1,116,841	(84,328)
Income tax relating to fair value change of financial assets through other comprehensive income	31	(167,527)	8,993
		<b>949,314</b>	(75,335)
Other comprehensive income/(loss), net of tax		<b>992,559</b>	(89,816)
<b>Total comprehensive income/(loss) for the year</b>		<b>913,190</b>	(383,543)
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		914,211	(383,729)
Non-controlling interests		(1,021)	186
		<b>913,190</b>	(383,543)
Total comprehensive income/(loss) attributable to owners of the Company arising from:			
Continuing operations		915,310	(382,843)
Discontinued operation		(1,099)	(886)
		<b>914,211</b>	(383,729)
Total comprehensive income/(loss) attributable to the non-controlling interests arising from:			
Continuing operations		(28)	1,003
Discontinued operation		(993)	(817)
		<b>(1,021)</b>	186

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	17	415,115	380,264
Intangible assets and goodwill	18	68	5,023
Investments in associates	19	–	–
Financial assets at fair value through other comprehensive income	20	1,896,926	731,390
Right-of-use assets	21	157,913	157,729
Long-term deposits and prepayments	24	1,192	1,118
<b>Total non-current assets</b>		<b>2,471,214</b>	<b>1,275,524</b>
<b>CURRENT ASSETS</b>			
Inventories	22	15,172	1,406
Contract assets	23	11,884	14,281
Trade and other receivables	24	194,574	304,953
Loans receivables	25	–	–
Pledged bank deposits		2,388	193
Cash and cash equivalents	26	147,812	245,879
<b>Total current assets</b>		<b>371,830</b>	<b>566,712</b>
<b>Total assets</b>		<b>2,843,044</b>	<b>1,842,236</b>
<b>EQUITY</b>			
Share capital	32	61,569	61,569
Other reserves	33	2,413,768	1,421,209
Accumulated losses		(537,050)	(458,702)
<b>Equity attributable to owners of the Company</b>		<b>1,938,287</b>	<b>1,024,076</b>
Non-controlling interests		(2)	24,296
<b>Total equity</b>		<b>1,938,285</b>	<b>1,048,372</b>





# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities	28	378	554
Bank borrowings	30	169,066	157,980
Deferred income tax liabilities	31	230,903	59,421
<b>Total non-current liabilities</b>		<b>400,347</b>	217,955
<b>CURRENT LIABILITIES</b>			
Trade and other payables	27	136,699	182,166
Contract liabilities	23	4,501	7,872
Lease liabilities	28	752	1,212
Bank and other borrowings	30	327,773	346,425
Deferred government grants	29	21,642	26,004
Income tax payable		13,045	12,230
<b>Total current liabilities</b>		<b>504,412</b>	575,909
<b>Total liabilities</b>		<b>904,759</b>	793,864
<b>Total equity and liabilities</b>		<b>2,843,044</b>	1,842,236

The consolidated financial statements on pages 64 to 153 were approved and authorised for issue by the Board of Directors on 30 March 2021 and were signed on its behalf:

**Dr. Liu Ruopeng**  
DIRECTOR

**Dr. Luan Lin**  
DIRECTOR

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



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to the Owners of the Company				Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000 (note 32)	Other reserves HK\$'000 (note 33)	Accumulated losses HK\$'000	Subtotal HK\$'000		
At 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
At 1 January 2020	<b>61,569</b>	<b>1,421,209</b>	<b>(458,702)</b>	<b>1,024,076</b>	<b>24,296</b>	<b>1,048,372</b>
Loss for the year	–	–	(78,348)	(78,348)	(1,021)	(79,369)
Other comprehensive loss for the year:						
– Currency translations difference	–	43,245	–	43,245	–	43,245
– Change in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	–	949,314	–	949,314	–	949,314
Total comprehensive income/(loss) for the year	–	992,559	(78,348)	914,211	(1,021)	913,190
Disposal of a subsidiary (note 38)	–	–	–	–	(23,277)	(23,277)
At 31 December 2020	<b>61,569</b>	<b>2,413,768</b>	<b>(537,050)</b>	<b>1,938,287</b>	<b>(2)</b>	<b>1,938,285</b>

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 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>Cash flow from operating activities</b>			
Cash generated from/(used in) operations	39(a)	36,470	(135,425)
Income tax paid		(59)	–
Interest paid		(33,009)	(22,544)
<b>Net cash generated from/(used) in operating activities</b>		<b>3,402</b>	<b>(157,969)</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment		(14,020)	(62,425)
Proceeds from disposal of property, plant and equipment		–	506
Interest received		1,007	4,979
Proceeds from repayment of loan receivables		–	9,731
(Increase)/decrease in pledged deposits		(2,182)	111
Proceeds from disposal of financial assets at fair value through other comprehensive income		–	6,590
Net cash outflow on acquisitions of subsidiaries	37	(49,070)	(21,026)
Net cash outflow from disposal of subsidiaries	38	(651)	–
<b>Net cash used in investing activities</b>		<b>(64,916)</b>	<b>(61,534)</b>
<b>Cash flow from financing activities</b>			
Proceeds from bank borrowings	39(b)	12,488	46,600
Repayment of bank borrowings		(11,919)	–
Proceeds from other borrowings		315,854	–
Repayment of other borrowings		(357,571)	–
Repayments of principal portion of lease payments	39(b)	(1,235)	(1,075)
Acquisition of non-controlling interests	39(b)	–	(6,040)
<b>Net cash (used in)/generated from financing activities</b>		<b>(42,383)</b>	<b>39,485</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(103,897)</b>	<b>(180,018)</b>
<b>Cash and cash equivalents at the beginning of the year</b>			
Effect of exchange rate changes on cash and cash equivalents		5,830	(3,714)
<b>Cash and cash equivalents at the end of the year</b>	26	<b>147,812</b>	<b>245,879</b>

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 2020

## 1 GENERAL INFORMATION

KuangChi Science Limited (the “Company”) is a limited company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of its business is located at Unit 1104, 11/F, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together the “Group”) are 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\$79,369,000 for the year ended 31 December 2020 and as of that date, the Group’s current liabilities exceeded its current assets by HK\$132,582,000 and had net debt of HK\$347,769,000 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.

Subsequent to the reporting period, the Group disposed of certain of its financial assets at fair value through other comprehensive income for a total consideration of RMB385,718,000 (equivalent to HK\$459,737,000). The disposal proceeds were used for repayment of other borrowings and working capital purpose. In this connection and 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 2020

## 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 2020 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 2020:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The impacts of the new and amended standards are set out in note 4.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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	<i>Insurance Contracts and the related Amendments<sup>1</sup></i>
Amendment to HKFRS 16	<i>Covid-19 – Related Rent Concessions<sup>4</sup></i>
Amendments to HKFRS 3	<i>Reference to the Conceptual Framework<sup>2</sup></i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2<sup>5</sup></i>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>3</sup></i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)<sup>1</sup></i>
Amendments to HKAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use<sup>2</sup></i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract<sup>2</sup></i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2018-2020<sup>2</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2020.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2021.

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.

#### *Amendment to HKFRS 16 Covid-19 – Related Rent Concessions*

The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19 – related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 *Leases* if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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 Reference to the Conceptual Framework*

The amendments:

- update a reference in HKFRS 3 *Business Combinations* so that it refers to the *Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the “Conceptual Framework”) instead of *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting 2010* issued in October 2010);
- add a requirement that, for transactions and other events within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or HK(IFRIC)-Int 21 *Levies*, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and
- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The Group will apply the amendments prospectively to business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

#### *Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2*

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities** – A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16;
- **Hedge accounting requirements** – Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and
- **Disclosures** – The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity’s progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

*Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
  - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
  - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and (Note)
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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 16 Property, Plant and Equipment – Proceeds before Intended Use*

The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with HKAS 2 *Inventories*.

##### *Amendments to HKAS 37 Onerous Contracts – Cost of Fulfilling a Contract*

The amendments specify that, when an entity assesses whether a contract is onerous in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the unavoidable costs under the contract should reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Costs of fulfilling the contract include incremental costs and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments are applicable to contracts for which the Group has not yet fulfilled all its obligations as at the date of initial application.

##### *Amendments to HKFRSs Annual Improvements to HKFRSs 2018-2020*

The annual improvements make amendments to the following standards.

##### *HKFRS 9 Financial Instruments*

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the “10 per cent” test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other’s behalf.

##### *HKFRS 16 Leases*

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

##### *HKAS 41 Agriculture*

The amendment ensures consistency with the requirements in HKFRS 13 *Fair Value Measurement* by removing the requirement in paragraph 22 of HKAS 41 to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 where 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.

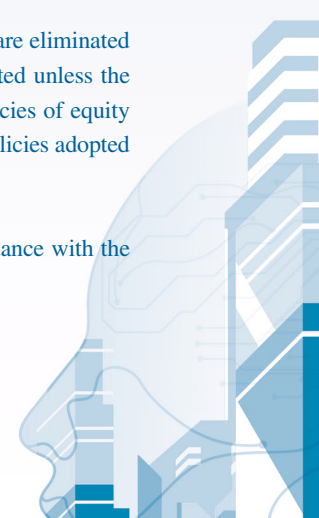
#### (iii) *Equity accounting*

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Principles of consolidation and equity accounting (Continued)

#### (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.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.3 Business combinations (Continued)

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.

### 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 2020

## 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.

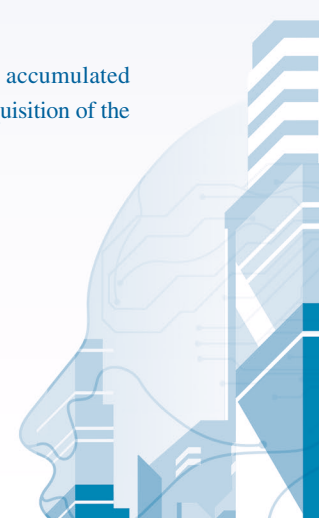
#### (d) *Disposal of foreign operation and partial disposal*

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.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.7 Property, plant and equipment (Continued)

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.

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.8 Intangible assets

#### (i) *Goodwill*

Goodwill is measured as described in note 3.3. 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.

#### (ii) *Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are recognised separately from goodwill and 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 with finite lives are reported at cost less accumulated amortisation and accumulated impairment losses. 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).





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.8 Intangible assets (Continued)

#### (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.

#### (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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 inflows which are largely independent of the cash inflows 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

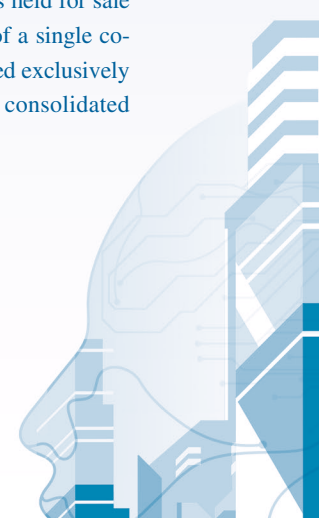
Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value 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 2020

## 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 (OCI)), 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 2020

## 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 OCI, 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.

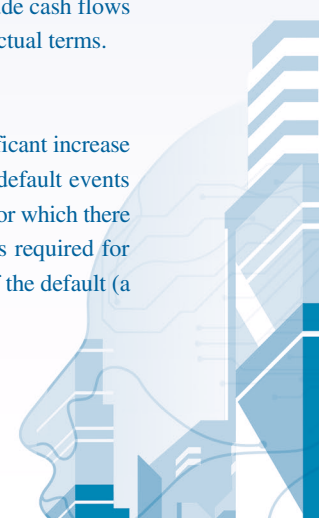
Changes in the fair value of financial assets at FVPL are recognised in other (losses)/gains, net in the consolidated statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes 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 2020

## 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 2020

## 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 24 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 that 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 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 32).

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 2020

## 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 2020

## 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*

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 2020

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.20 Leasing (Continued)

#### *As a lessee (Continued)*

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

Right-of-use assets are amortised 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.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within 12 months after the reporting period.

#### *As a lessor*

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.20 Leasing (Continued)

#### *As a lessor (Continued)*

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.

### 3.21 Revenue recognition

#### *Revenue from contracts with customers*

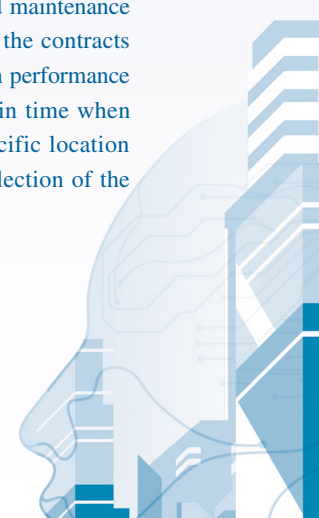
Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.21 Revenue recognition (Continued)

#### *Revenue from contracts with customers (Continued)*

(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.

(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 wearable smart helmets and chips*

Revenue from sales of wearable smart helmets and chips 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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### 3.25 Government grants

Grants from the government are recognised at their fair values where 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 2020

## 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 and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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 2020

## 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 vesting 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.

### 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 non-refundable 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 2020

## 4 APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

### 4.1 Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

### 4.2 Impacts on application of Amendments to HKFRS 3 Definition of a Business

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. 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.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group as the Group has no acquisition in the current year but may impact future periods should the Group make any acquisition.

### 4.3 Impacts on application of Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform

The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform.

The amendments had no impact on the consolidated financial statements of the Group as the Group has no designated hedged items or not applied hedge accounting.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 5 FINANCIAL RISK MANAGEMENT

### 5.1 Financial risk factors

The Group's major financial instruments include bank balances and cash, pledged bank deposits, trade and other receivables, contract assets, financial assets at fair value through other comprehensive income, trade and other payables, contract liabilities, lease 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.

#### (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"). 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 and RMB. 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:

	2020 HK\$'000	2019 HK\$'000
Denominated in USD		
Trade and other receivables	172,822	181,605
Cash and cash equivalents	114,237	159,466
Trade and other payables	–	(2)
	<b>287,059</b>	<b>341,069</b>

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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 2020, 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\$1,357,000 (2019: HK\$1,269,000).

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

	2020 HK\$'000	% of total loans	2019 HK\$'000	% of total loans
Interest-free borrowings:				
12 months or less	315,854	64%	–	–
Variable rate borrowings:				
12 months or less	11,919	2%	11,175	2%
Over 1–5 years	169,066	34%	157,980	31%
Fixed rate borrowings:				
12 months or less	–	–	335,250	67%
	<b>496,839</b>	<b>100%</b>	<b>504,405</b>	<b>100%</b>

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 2020 and 2019.

Other components of equity (net with tax effect) would increase/decrease by approximately HK\$161,239,000 (2019: HK\$62,168,000) 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 2020

## 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 2020 and 2019, the loan receivables were credit impaired and the recoverability of which was low. As such, the carrying amounts of the loan receivables were fully impaired.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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 2020 and 2019, 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 customers relating to accounts which are long overdue with significant amounts, known insolvencies or non-response to collection activities, they are assessed individually for impairment loss.

The 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 2020 and 2019 was determined as follows for trade receivables and contract assets:

	Contract asset		Trade receivables					Total
	Days past due		Days past due					
	Current	Current	1-90	91-180	181-365	1-2	Over	
HK\$'000	HK\$'000	days	days	days	years	2 years	HK\$'000	
<b>31 December 2020</b>								
<i>Provision on individual basis</i>								
Expected loss rate	100%	N/A	100%	N/A	N/A	N/A	100%	-
Gross carrying amount	11,129	-	2,359	-	-	-	50,277	52,636
Loss allowance	11,129	-	2,359	-	-	-	50,277	52,636
<i>Provision on collective basis</i>								
Expected loss rate	2.3%	2.3%	2.5%	7.3%	7.3%	13.8%	15.7%	-
Gross carrying amount	12,174	166,127	604	-	1,603	1,040	-	169,374
Loss allowance	290	3,810	15	-	117	143	-	4,085
<b>31 December 2019</b>								
<i>Provision on individual basis</i>								
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
<i>Provision on collective basis</i>								
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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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 2020, the Group has concentration at credit risk at 98% (2019: 75%) of the total trade debtors were due from the Group's five largest customers for the year ended 31 December 2020.

#### (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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 5 FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Financial risk factors (Continued)

#### (c) Liquidity risk (Continued)

##### Liquidity risk tables (Continued)

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.

At 31 December 2020

	Within 1 year HK\$'000	2-5 years HK\$'000	More than 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
Trade and other payables	128,913	–	–	128,913	128,913
Lease liabilities	809	414	–	1,223	1,130
Other borrowings	315,854	–	–	315,854	315,854
Bank borrowings	24,557	139,367	70,558	234,482	180,985
	470,133	139,781	70,558	680,472	626,882

At 31 December 2019

	Within 1 year HK\$'000	2-5 years HK\$'000	More than 5 years HK\$'000	Total undiscounted cash flows 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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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 2020 and 2019 were as follows:

	Note	2020 HK\$'000	2019 HK\$'000
Bank and other borrowings	30	496,839	504,405
Lease liabilities	28	1,130	1,766
Less: Cash and cash equivalents	26	(147,812)	(245,879)
Pledged bank deposits		(2,388)	(193)
Net debt		347,769	260,099
Total equity		1,938,285	1,048,372
Total capital		2,286,054	1,308,471
<b>Gearing ratio</b>		<b>15.2%</b>	19.9%

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 2020

## 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
<b>At 31 December 2020</b>					
<b>Financial assets</b>					
Financial assets at fair value through other comprehensive income	20				
– listed equity securities		1,896,926	–	–	1,896,926
– unlisted equity securities		–	–	–	–
		1,896,926	–	–	1,896,926
<b>At 31 December 2019</b>					
<b>Financial assets</b>					
Financial assets at fair value through other comprehensive income	20				
– listed equity securities		731,390	–	–	731,390
– unlisted equity securities		–	–	–	–
		731,390	–	–	731,390





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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 2020. During the year ended 31 December 2019, 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 2020 and 2019:

	Financial assets at fair value through other comprehensive income	
	2020 HK\$'000	2019 HK\$'000
At 1 January	–	30,964
Disposals	–	(6,586)
Fair value change recognised in the other comprehensive income	–	(24,378)
At 31 December	–	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input(s)	
	31 December 2020 HK\$'000	31 December 2019 HK\$'000			31 December 2020	31 December 2019
(1) Listed securities – Financial assets at FVOCI	1,896,926	731,390	2020: Level 1 (2019: Level 1)	Fair value is estimated on basis of the quoted market price	N/A	N/A
(2) Unlisted securities – Financial assets at FVOCI	-	-	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 3% to 11% Terminal growth rate of 3% Discount rate of 17%	Revenue growth rate from -48% to 63% Terminal growth rate of 3% Discount rate of 17%

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 2020

## 5 FINANCIAL RISK MANAGEMENT (Continued)

### 5.4 Financial Instruments By Category

	2020 HK\$'000	2019 HK\$'000
<b>Financial assets</b>		
Financial assets at fair value through other comprehensive income	1,896,926	731,390
At amortised cost		
– Trade and other receivables	169,445	276,218
– Pledged bank deposits	2,388	193
– Cash and cash equivalents	147,812	245,879
	319,645	522,290
	2,216,571	1,253,680
<b>Financial liabilities</b>		
At amortised cost		
– Lease liabilities	1,130	1,766
– Bank and other borrowings	496,839	504,405
– Trade and other payables	128,913	175,473
	626,882	681,644



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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.

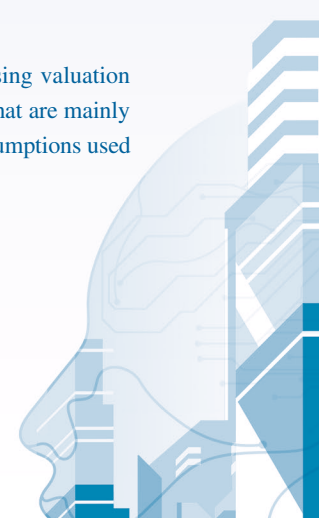
The provision of ECL is sensitive to changes in estimates. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2020, the aggregate carrying amount of trade receivables and contract assets was HK\$177,173,000 (2019: HK\$287,173,000), after a net of allowance for doubtful debts of HK\$68,140,000 (2019: HK\$57,890,000).

### (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 2020

## 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:

	2020 HK\$'000	2019 HK\$'000
<b>From continuing operations</b>		
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Disaggregated by major products or service lines		
Revenue recognised at a point in time		
– Sales of wearable smart helmets	63,421	–
– Sales of chips	–	7,311
– Provision of procurement services	10,118	6,663
Revenue recognised over time		
– Sales of artificial intelligent coverage system and related products	25,939	46,848
	<b>99,478</b>	<b>60,822</b>

### (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 2020

## 7 REVENUE AND SEGMENT REPORTING (Continued)

### (b) Segment Information (Continued)

#### *Geographical information*

The Group operates 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*	
	2020 HK\$’000	2019 HK\$’000	2020 HK\$’000	2019 HK\$’000
PRC	68,543	46,848	574,147	543,425
Hong Kong	10,118	13,974	141	709
The Middle East	14,486	–	–	–
Others	6,331	–	–	–
	<b>99,478</b>	<b>60,822</b>	<b>574,288</b>	<b>544,134</b>

\* 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 2020 and 2019:

	2020 HK\$’000	2019 HK\$’000
Customer 1	15,291	N/A <sup>#</sup>
Customer 2	N/A <sup>#</sup>	7,311
Customer 3	N/A <sup>#</sup>	23,563
Customer 4	N/A <sup>#</sup>	11,502
Customer 5	N/A <sup>#</sup>	6,663

<sup>#</sup> 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 2020

## 8 OTHER INCOME AND OTHER GAINS, NET

	Note	2020 HK\$'000	2019 HK\$'000
<b>Other income</b>			
<b>From continuing operations</b>			
Government grants	(a)	6,707	3,612
Consultancy service income		226	1,636
Sales of scrap materials		–	471
Sundry income		2,517	3,222
		<b>9,450</b>	<b>8,941</b>
<b>Other gains, net</b>			
<b>From continuing operations</b>			
Exchange loss, net		1,970	(1,231)
Loss on disposal of plant and equipment		–	(25)
Gain on disposal of a subsidiary	38(b)	12,749	–
Gain on deemed partial disposal of associates		–	5,987
Gain on deregistration of subsidiaries	(b)	138	93
Others		(53)	–
		<b>14,804</b>	<b>4,824</b>

Note

- (a) Government grants represented cash subsidies received from the PRC local government for the Group's research and development activities during the years ended 31 December 2020 and 2019. There are no unfulfilled conditions or contingencies relating to such government grant income.
- (b) The gain on deregistration of subsidiaries of HK\$138,000 (2019: HK\$93,000) for the year ended 31 December 2020 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 2020

### 9 OPERATING LOSS

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

	Note	2020 HK\$'000	2019 HK\$'000
<b>From continuing operations</b>			
Employee benefit expenses	10	44,887	95,453
Cost of inventories sold	22	53,419	48,056
Cost of services		7,483	2,953
Amortisation of intangible assets	18	4,992	5,043
Amortisation of right-of-use assets	21	10,254	11,233
Auditor's remuneration			
– Audit services for the year		1,760	1,792
Depreciation of property, plant and equipment	17	3,941	10,233
Lease payments not included in the measurement of lease liabilities		7,078	11,052
Impairment loss on trade receivables	24(b)	388	32,595
Impairment loss/(reversal of impairment loss) on contract assets	24(b)	10,484	(329)
Impairment loss on prepayment and other receivables		–	1,376
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





## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 10 EMPLOYEE BENEFIT EXPENSES

	2020 HK\$'000	2019 HK\$'000
<b>From continuing operations</b>		
Salaries, wages and other benefits	44,473	92,160
Retirement benefits scheme contributions	989	5,704
	45,462	97,864
Less: capitalised portion	(575)	(2,411)
	<b>44,887</b>	<b>95,453</b>
	2020 HK\$'000	2019 HK\$'000
Represented in		
– Selling and distribution expenses	7,500	10,976
– Research and development expenses	22,844	51,479
– Administrative expenses	14,543	32,998
	<b>44,887</b>	<b>95,453</b>

#### Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2019: two) directors are reflected in the analysis shown in note 12. The emoluments payable to the remaining four (2019: three) individuals, who are neither a director nor chief executive of the Company, during the year were as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and other allowances	2,490	2,667
Discretionary bonuses	1,328	494
Retirement benefits scheme contributions	38	113
	<b>3,856</b>	<b>3,274</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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	
	2020	2019
Nil - HK\$1,000,000	3	1
HK\$1,000,001 to HK\$1,500,000	1	2
	4	3

## 11 FINANCE COSTS, NET

	2020	2019
	HK\$'000	HK\$'000
<b>From continuing operations</b>		
<b>Finance income</b>		
Interest income:		
– Short term and time deposits	1,007	1,179
– Loan to a related party (note 36)	–	161
<b>Finance income</b>	<b>1,007</b>	<b>1,340</b>
<b>Finance costs</b>		
Interest expenses:		
– Lease liabilities	(113)	(154)
– Bank and other borrowings	(33,578)	(33,416)
	(33,691)	(33,570)
Amounts capitalised into construction in progress	682	10,947
Finance costs	(33,009)	(22,623)
<b>Finance costs, net</b>	<b>(32,002)</b>	<b>(21,283)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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 2020

	Fees HK\$'000	Salary and other allowance HK\$'000	Discretionary bonus HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
<i>Executive Directors</i>					
Dr. Liu R, <i>Chairman</i>	-	-	-	-	-
Dr. Zhang Yangyang, <i>Co-Chief Executive Officer</i>	-	-	-	-	-
Dr. Luan Lin, <i>Co-Chief Executive Officer</i>	-	1,499	1,012	29	2,540
Mr. Dorian Barak ( <i>resigned on 31 January 2020</i> )	97	-	-	-	97
Dr. Ji Chunlin ( <i>appointed on 1 February 2020</i> )	-	-	-	-	-
<i>Non-executive Directors</i>					
Mr. Li Chiu Ho ( <i>appointed on 23 March 2020</i> )	194	-	-	-	194
<i>Independent Non-executive Directors</i>					
Dr. Liu Jun ( <i>resigned on 27 July 2020</i> )	143	-	-	-	143
Dr. Wong Kai Kit	250	-	-	-	250
Mr. Choi Wing Koon	250	-	-	-	250
Dr. Deng Ke ( <i>appointed on 27 July 2020</i> )	104	-	-	-	104
	1,038	1,499	1,012	29	3,578

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 12 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

### Directors' and chief executive's emoluments (Continued)

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	Total HK\$'000
<b>Executive Directors</b>					
Dr. Liu Ruopeng ("Dr. Liu R"), <i>Chairman</i>	762	–	–	–	762
Dr. Zhang Yangyang*	714	–	–	–	714
Dr. Luan Lin, <i>Chief Executive Officer</i>	666	751	680	38	2,135
Mr. Dorian Barak ( <i>resigned on 31 January 2020</i> )	1,177	–	–	–	1,177
<b>Independent Non-executive Directors</b>					
Dr. Liu Jun	250	–	–	–	250
Dr. Wong Kai Kit	250	–	–	–	250
Ms. Cao Xinyi ( <i>resigned on 23 July 2019</i> )	140	–	–	–	140
Mr. Choi Wing Koon ( <i>appointed on 21 October 2019</i> )	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

During the year ended 31 December 2020, Dr. Liu R and Dr. Zhang Yangyang agreed to waive the emoluments payable to them for the year ended 31 December 2020 amounted to HK\$900,000 and HK\$845,000, respectively. Other than Dr. Liu R and Dr. Zhang Yangyang, neither the chief executive nor any of the other directors waived or agreed to waive any emoluments during the year ended 31 December 2020.

During the year ended 31 December 2019, neither the chief executive nor any of the directors waived or agreed to waive any emoluments.

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 (2019: Nil).

Save as disclosed in note 36, 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 2020

## 13 INCOME TAX EXPENSE

	2020 HK\$'000	2019 HK\$'000
<b>From continuing operations</b>		
Current income tax		
PRC Corporate Income Tax		
– Under-provision in prior years	59	–

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for the year (2019: 16.5%). No Hong Kong profits tax has been provided for both years as the Group has no assessable profit derived in Hong Kong.

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.

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

	2020 HK\$'000	2019 HK\$'000
<b>From continuing operations</b>		
Loss before tax	(77,218)	(293,114)
Tax at Hong Kong tax rate of 16.5%	(12,741)	(48,363)
Tax effect of different tax rates of subsidiaries operations in other jurisdictions and region	(1,439)	(4,775)
Expenses not deductible for tax purposes	6,770	26,624
Income not taxable for tax purposes	(6,001)	(3,898)
Tax losses not recognised	14,751	30,473
Tax effect of temporary differences not recognised	(28)	(9)
Utilisation of tax losses previously not recognised	(1,312)	(52)
Under-provision in prior years	59	–
Income tax expense	59	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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. Since then, MACL was classified as a discontinued operation.

During the year ended 31 December 2020, the Group sold all of its equity interest in MACL to an independent third party at a consideration of US\$100, the details of which are set out in note 38(a) to the consolidated financial statements.

The operating results of the discontinued operation were as follows:

	Note	2020 HK\$'000	2019 HK\$'000
Revenue		–	–
Other income		–	458
Other (losses)/gains, net		(1,779)	48
Gain on disposal of property, plant and equipment		–	504
Administrative expenses		(291)	(1,626)
Operating loss		(2,070)	(616)
Finance income		–	3
Finance costs		–	–
Finance income, net		–	3
Loss before tax		(2,070)	(613)
Loss on disposal of discontinued operation	38(a)	(22)	–
Income tax expense		–	–
Loss for the year from discontinued operation		(2,092)	(613)
Loss for the year from discontinued operation attributable to:			
Owners of the Company		(1,099)	(319)
Non-controlling interests		(993)	(294)
		(2,092)	(613)
Net operating cash outflow		(191)	(4,049)
Net investing cash outflow		(650)	(11,983)
Net financing cash inflow		–	–
Net cash outflow		(841)	(16,032)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 14 DISCONTINUED OPERATION (Continued)

No tax charge or credit arose on the discontinued operation.

Basic and diluted loss per share from the discontinued operation is HK0.02 cents (2019: basic and diluted loss per share from the discontinued operation of HK0.005 cents), which is calculated based on the loss for the year attributable to owners of the Company from the discontinued operation of HK\$1,099,000 (2019: loss of HK\$319,000) and the weighted average number of 6,156,929,000 shares (2019: 6,156,929,000 shares).

For the year ended 31 December 2020, diluted loss per share is the same as basic loss per share as the Company does not have diluted potential ordinary shares.

For the year ended 31 December 2019, 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.

## 15 LOSS PER SHARE

### (a) From continuing operations

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

Loss figures are calculated as follows:

	2020 HK\$'000	2019 HK\$'000
Loss for the year attributable to owners of the Company	(78,348)	(294,436)
Add: Loss for the year from discontinued operation	1,099	319
Loss for the purpose of basic and diluted loss per share from continuing operations	(77,249)	(294,117)

	2020 '000	2019 '000
Number of shares are calculated as follows:		
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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 15 LOSS PER SHARE (Continued)

### (a) From continuing operations (Continued)

For the year ended 31 December 2020, diluted loss per share is the same as basic loss per share as the Company does not have diluted potential ordinary shares.

For the year ended 31 December 2019, the computation of diluted loss per share does not assume the exercise of the outstanding shares options issued since the assumed exercise would result in a decrease in loss per share.

### (b) From continuing 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*

	2020 HK\$'000	2019 HK\$'000
Loss for the year attributable to owners of the Company	(78,348)	(294,436)

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

For the year ended 31 December 2020, diluted loss per share is the same as basis loss per share as the Company does not have diluted potential ordinary shares.

For the year ended 31 December 2019, 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 is disclosed in note 14.

## 16 DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2020, nor has any dividend been proposed since the end of the reporting period (2019: Nil).





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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
<b>COST</b>								
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
At 1 January 2020	8,014	21,505	213	23,809	88	5,672	363,659	422,960
Additions	-	-	-	186	-	-	12,754	12,940
Disposal of a subsidiary	-	(12,960)	-	(8,230)	(88)	(492)	-	(21,770)
Currency translation differences	533	569	11	1,034	-	296	24,972	27,415
At 31 December 2020	8,547	9,114	224	16,799	-	5,476	401,385	441,545
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>								
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
At 1 January 2020	-	20,184	213	17,516	88	4,695	-	42,696
Depreciation	299	679	-	2,477	-	486	-	3,941
Disposal of a subsidiary	-	(12,960)	-	(8,230)	(88)	(492)	-	(21,770)
Currency translation differences	18	520	11	752	-	262	-	1,563
At 31 December 2020	317	8,423	224	12,515	-	4,951	-	26,430
<b>CARRYING AMOUNTS</b>								
At 31 December 2020	8,230	691	-	4,284	-	525	401,385	415,115
At 31 December 2019	8,014	1,321	-	6,293	-	977	363,659	380,264

The construction in progress mainly represents building under construction for research and development purpose and for use as an office. As at 31 December 2020, the construction in progress with a carrying amount of HK\$401,385,000 (2019: HK\$363,659,000) was pledged for the banking facilities (note 30).

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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
<b>COST</b>					
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
At 1 January 2020	30,652	102,868	5,608	84,734	223,862
Disposals of a subsidiary	(29,102)	(97,667)	(5,324)	(69,607)	(201,700)
Currency translation differences	(1,550)	(5,201)	(284)	1,007	(6,028)
At 31 December 2020	-	-	-	16,134	16,134
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>					
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
At 1 January 2020	30,652	102,868	5,608	79,711	218,839
Amortisation	-	-	-	4,992	4,992
Disposals of a subsidiary	(29,102)	(97,667)	(5,324)	(69,607)	(201,700)
Currency translation differences	(1,550)	(5,201)	(284)	970	(6,065)
At 31 December 2020	-	-	-	16,066	16,066
<b>CARRYING AMOUNTS</b>					
At 31 December 2020	-	-	-	68	68
At 31 December 2019	-	-	-	5,023	5,023

Amortisation of HK\$4,992,000 (2019: HK\$5,043,000) is included in the consolidated statement of profit or loss within the 'Research and development expenses'.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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		Principal activity	Carrying amount	
			2020	2019		2020 HK\$'000	2019 HK\$'000
Agent Video Intelligence Ltd. ("Agent VI")	Israel	(a)	-	25.4	Development of video analytics solutions	-	-
SkyX Limited ("SkyX")	BVI/Canada	(b)	-	51.3	Development and commercialisation of SkyX aircrafts	-	-
Solar Ship Inc. ("Solar Ship")	Canada	(c)	-	37.8	Development and commercialisation of solar power aircrafts	-	-
						-	-

### (a) Agent VI

	2020 HK\$'000	2019 HK\$'000
At 1 January	-	29,644
Share of losses	-	(3,164)
Provision for impairment	-	(26,307)
Currency translation differences	-	(173)
At 31 December	-	-

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 19 INVESTMENTS IN ASSOCIATES (Continued)

### (a) Agent VI (Continued)

Given that the operations of Agent VI had no improvements and the management of the Company would like to focus on the Group's own research and development activities, the management of the Company agreed to surrender its nomination right of the directors of Agent VI during the year ended 31 December 2020 and not to involve in Agent VI's daily operations anymore. As the Group is no longer able to exercise a significant influence over Agent VI through its existing or potential rights, the investment in Agent VI was reclassified from interest in associates to financial assets at fair value through other comprehensive income. The fair value of the investment at the date of reclassification was considered to be zero based on the poor performance of Agent VI in the recent years and the unlikelihood of getting improvement. The reclassification had no significant impact on the consolidated financial statements of the Group.

### (b) SkyX

	2020 HK\$'000	2019 HK\$'000
At 1 January	–	31,702
Gain on deemed partial disposal	–	5,987
Share of losses	–	(24,736)
Provision for impairment loss	–	(12,460)
Currency translation differences	–	(493)
At 31 December	–	–

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 38.

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.

Given that the operations of SkyX had no improvements and the management of the Company would like to focus on the Group's own research and development activities, the management of the Company agreed to surrender its nomination right of the directors of SkyX during the year ended 31 December 2020 and not to involve in SkyX's daily operations anymore. As the Group is no longer able to exercise a significant influence over SkyX through its existing or potential rights, the investment in SkyX was reclassified from interest in associates to financial assets at fair value through other comprehensive income. The fair value of the investment at the date of reclassification was considered to be zero based on the poor performance of SkyX in the recent years and the unlikelihood of getting improvement. The reclassification had no significant impact on the consolidated financial statements of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 19 INVESTMENTS IN ASSOCIATES (Continued)

### (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.

On 10 November 2020, the Group entered into a sale and purchase agreement with two independent third parties (the “Purchasers”) pursuant to which the Group agreed to sell and the Purchasers agreed to purchase all of the Group’s equity interest in Solar Ship at CAD1. The disposal was resulted in a gain of CAD1. The management of the Company believed that after the disposal the Group is able to focus on its own research and development activities instead of incurring managerial resources on the non-profitable investments.

## 20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Notes	2020 HK\$'000	2019 HK\$'000
Representing:			
Listed equity securities	(a)	1,896,926	731,390
Unlisted equity securities	(b)	–	–
		<b>1,896,926</b>	<b>731,390</b>

Notes:

### (a) Listed equity securities

As at 31 December 2020, the Group hold 71,528,751 (2019: 71,528,751) ordinary shares of Kuang-Chi Technologies Co., Ltd. (“KCT”), representing 3.32% (2019: 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 was pledged against the other borrowings (note 30).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

Notes: (Continued)

(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 2020, 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 (2019: HK\$Nil). The investment represents 19.14% (2019: 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 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 this financial instrument was reduced to zero. The fair values of these financial instruments remained zero as at 31 December 2020.

During the year ended 31 December 2020, the Group transferred the investments in Agent VI and SkyX from investments in associates to financial assets at FVOCI upon losing the significant influence over these investees. The fair values of these investments upon the reclassification and at 31 December 2020 were zero.

## 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 37)	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
At 1 January 2020	<b>145,204</b>	<b>12,525</b>	<b>157,729</b>
Additions	–	530	530
Amortization for the year	(4,680)	(5,574)	(10,254)
Currency translation differences	9,389	519	9,908
At 31 December 2020	<b>149,913</b>	<b>8,000</b>	<b>157,913</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 21 RIGHT-OF-USE ASSETS (Continued)

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

	2020 Total HK\$'000	2019 Total HK\$'000
Interest on lease liabilities	113	154
Amortisation of right-of-use assets	10,254	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	7,078	11,052
Impairment loss on right-of-use assets	–	7,253

As at 31 December 2020, the leasehold land of HK\$82,174,000 (2019: HK\$79,251,000) was pledged against the bank borrowings of the Group (note 30).

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.

### 22 INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Raw materials	1,287	698
Finished goods	13,885	708
	15,172	1,406

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

	2020 HK\$'000	2019 HK\$'000
Carrying amount of inventories sold	53,162	44,743
Write-down of inventories	257	3,313
	53,419	48,056

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 23 CONTRACT ASSETS AND CONTRACT LIABILITIES

#### (a) Contract assets

	Notes	2020 HK\$'000	2019 HK\$'000
Arising from performance under made-to-order arrangements		23,303	14,571
Less: allowance for expected credit loss	24(b)	(11,419)	(290)
		11,884	14,281

As at 31 December 2020, the amount of contract assets that is expected to be recovered after more than one year is HK\$Nil (2019: HK\$Nil).

The movements in loss allowance account for contract assets is disclosed in note 24(b). During the year ended 31 December 2020, the Group encountered difficulties in recovering from a customer for the work performed. The directors of the Company considered that full impairment loss of HK\$10,293,000 in relation to the contract assets arising from the contract with this customer should be made in the year ended 31 December 2020.

#### (b) Contract liabilities

	2020 HK\$'000	2019 HK\$'000
Receipts in advance of performance		
– “Cloud” maintenance services	4,232	3,968
– Made-to-order arrangements	269	3,904
	4,501	7,872

Note:

#### (i) Movements in contract liabilities:

	2020 HK\$'000	2019 HK\$'000
Balance at 1 January	7,872	4,043
Currency translation differences	290	(75)
Increase in contract liabilities as a result of billing in advance	268	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	(3,929)	–
Balance at 31 December	4,501	7,872

As at 31 December 2020 and 2019, 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 24 TRADE AND OTHER RECEIVABLES

	Note	2020 HK\$'000	2019 HK\$'000
Trade receivables		222,010	330,492
Less: allowance for expected credit loss	(b)	(56,721)	(57,600)
Trade receivables, net		165,289	272,892
Deposits and other receivables		4,141	3,326
Consideration receivable		15	–
Prepayments to suppliers		1,237	13,477
Other prepayments		11,374	4,603
Value-added tax and other tax recoverable		13,710	11,773
		195,766	306,071
Less: non-current portion		(1,192)	(1,118)
		194,574	304,953

The Group did not hold any collateral over these balances (2019: Nil).

Note:

- (a) The following is an aging analysis of trade receivables presented based on the date of revenue recognition and net of allowance as at 31 December 2020 and 2019:

	2020 HK\$'000	2019 HK\$'000
0 to 90 days	162,906	171,730
91 to 180 days	–	77
181 to 365 days	64	35,549
1 to 2 years	2,319	13,625
2 to 3 years	–	43,135
Over 3 years	–	8,776
	165,289	272,892

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 24 TRADE AND OTHER RECEIVABLES (Continued)

Note: (Continued)

- (b) Movements in loss allowance account for the trade receivables and contract assets during the years ended 31 December 2020 and 2019 are as follows:

	Note	Trade receivables HK\$'000	Contract assets HK\$'000	Total HK\$'000
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	(ii)	57,600	290	57,890
At 1 January 2020		57,600	290	57,890
Provision for impairment loss		388	10,484	10,872
Currency translation differences		3,301	645	3,946
Uncollectible amounts written off		(4,568)	–	(4,568)
At 31 December 2020	(i)	56,721	11,419	68,140

Notes:

- (i) As at 31 December 2020, the loss allowance for the trade receivables mainly included the provisions on Customer A as detailed in note 24(b)(ii) below.
- (ii) 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. Partial settlement amounted to RMB45,000,000 (approximately to HK\$50,288,000) has been received after the year ended 31 December 2019. 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 receivable.
  - 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.
- (iii) Details of the Group’s credit policy please refer to note 5.1(b).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 25 LOANS RECEIVABLES

	Notes	2020 HK\$'000	2019 HK\$'000
Loan to a third party	(a)	2,368	2,368
Loan to an associate	(b)	–	22,378
		<b>2,368</b>	24,746
Less: provision for impairment loss		<b>(2,368)</b>	(24,746)
		–	–

Notes:

- (a) As at 31 December 2020 and 2019, the balance represented a loan to Beyond Verbal of HK\$2,368,000, which is unsecured, bearing interest at 6% per annum and mature on 31 March 2018. The loan was fully impaired in 2017 as management considered that the recoverability of the loan is remote. No repayment was made by Beyond Verbal during the year ended 31 December 2020.
- (b) As at 31 December 2019, 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 2020, following the disposal of equity interest in Solar Ship as detailed in note 19(c), the Group forgave all the outstanding loan granted to Solar Ship and wrote off the loan accordingly.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 26 CASH AND CASH EQUIVALENTS

	Note	2020 HK\$'000	2019 HK\$'000
Cash and cash equivalents	(a)	147,812	245,879

Note:

- (a) As at 31 December 2020, interest rates over bank deposits ranged from 0.00% to 0.35% (2019: 0.00% to 0.35%) per annum.

## 27 TRADE AND OTHER PAYABLES

	Note	2020 HK\$'000	2019 HK\$'000
Trade payables	(a)	31,817	22,127
Accrued employee benefits		6,353	12,240
Value-added tax and other tax payables		7,786	6,693
Other payables and accruals		30,063	34,131
Consideration payable for acquisition of subsidiaries	37	–	49,070
Accrued construction costs		60,680	57,905
		<b>136,699</b>	<b>182,166</b>

Note:

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

	2020 HK\$'000	2019 HK\$'000
0 to 90 days	195	6,869
91 to 365 days	22,064	1,070
Over 1 year	9,558	14,188
	<b>31,817</b>	<b>22,127</b>

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 28 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 2020		31 December 2019	
	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	752	809	1,212	1,323
After 1 year <i>but within</i> 2 years	189	216	554	567
After 2 years <i>but within</i> 5 years	189	198	–	–
	378	414	554	567
	<u>1,130</u>	<u>1,223</u>	<u>1,766</u>	<u>1,890</u>
Less: total future interest expenses		<u>(93)</u>		<u>(124)</u>
Present value of lease liabilities		<u>1,130</u>		<u>1,766</u>

As at 31 December 2020 and 2019, the incremental borrowing rates used for determination of the present value of lease payments were ranged from 9% to 11%.

### 29 DEFERRED GOVERNMENT GRANTS

At 31 December 2020, the balance represented deferred government grant of HK\$21,642,000 (2019: HK\$26,004,000) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 30 BANK AND OTHER BORROWINGS

At 31 December 2020, the bank and other borrowings were as follows:

	Note	2020			2019		
		Current HK\$'000	Non- Current HK\$'000	Total HK\$'000	Current HK\$'000	Non- Current HK\$'000	Total HK\$'000
Bank borrowings	(a)	11,919	169,066	180,985	11,175	157,980	169,155
Other borrowings							
Loan A	(b)(i)	–	–	–	335,250	–	335,250
Loan B	(b)(ii)	315,854	–	315,854	–	–	–
<b>Total</b>		<b>327,773</b>	<b>169,066</b>	<b>496,839</b>	<b>346,425</b>	<b>157,980</b>	<b>504,405</b>

At 31 December 2020, the Group's borrowings were repayable as follows:

	Bank borrowings		Other borrowings	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Within 1 year	11,919	11,175	315,854	335,250
Between 1 and 2 years	23,838	11,175	–	–
Between 2 and 5 years	80,193	67,050	–	–
Over 5 years	65,035	79,755	–	–
	<b>180,985</b>	<b>169,155</b>	<b>315,854</b>	<b>335,250</b>

Notes:

(a) **Bank borrowings**

As at 31 December 2020, the bank borrowings carried interest at the floating rates from 6.7% to 7.4% (2019: 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\$82,174,000 (2019: HK\$79,251,000) and HK\$401,385,000 (2019: 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 2020, the total available banking facilities granted to the Group were HK\$325,317,000 (2019: HK\$316,186,000), of which HK\$144,332,000 (2019: HK\$147,031,000) were unutilised.

(b) **Other borrowings**

(i) **Loan A**

As at 31 December 2019, the Loan A carried interest at a fixed rate of 6.5% per annum. The Loan A was secured by the Group's investment in KCT classified as financial assets at FVOCI with a carrying amount of HK\$731,390,000 and guaranteed by the Company's shareholders and a company which is controlled by Dr. Liu R. The Loan A was due for repayment on 29 October 2020. During the year ended 31 December 2020, the Group fully repaid the Loan A.

(ii) **Loan B**

On 29 December 2020, the Group entered into an agreement to borrow a loan of RMB265,000,000 from 深圳市旺裕盛投资有限公司 ("深圳市旺裕盛") ("Loan B"). Loan B is unsecured, interest free and repayable on 31 March 2021. If the Group is unable to repay the Loan B by 31 March 2021, interest shall be charged at 4.35% per annum. Owner of 深圳市旺裕盛 is one of the shareholders of KCT and the Group fully repaid the Loan B in February 2021.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 31 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	
	2020 HK\$'000	2019 HK\$'000
At 1 January	59,421	69,705
Credited to the other comprehensive income	167,527	(8,993)
Currency translation differences	3,955	(1,291)
At 31 December	230,903	59,421

As at 31 December 2020, the Group had unrecognised tax losses of approximately of HK\$759,913,000 (2019: HK\$794,268,000) 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 the PRC may be carried forward for 5 years. The tax losses in Hong Kong have no expiry date. Unrecognised tax losses of HK\$32,026,000 (2019: HK\$191,974,000) have no expiry date, the remaining losses will expire at variable dates up to 2025.

Deferred tax liabilities in relation to the withholding tax on the unremitted earnings of certain PRC subsidiaries have not been recognised for both of the years ended 31 December 2020 and 2019 and as at 31 December 2020 and 2019 as the Group controls the dividend policy of the subsidiaries in the PRC and it has been determined that it is probable that the profits earned by the Group's subsidiaries in the PRC will not be distributed in the foreseeable future.

## 32 SHARE CAPITAL

	Number of shares	Equivalent to HK\$'000
<b>Ordinary shares</b>		
Authorised:		
Ordinary shares of HK\$0.01 each at 1 January 2019 and 31 December 2019 and 2020	7,316,666,668	73,167
Issued and fully paid:		
At 1 January 2019 and 31 December 2019 and 2020	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 2020

## 33 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 2019	2,339,550	(902,684)	17,900	103,941	46,545	(55,291)	1,549,961
Currency translation differences	-	-	-	-	-	(13,958)	(13,958)
Change in fair value 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
At 1 January 2020	2,339,550	(970,933)	17,900	103,941	-	(69,249)	1,421,209
Currency translation differences	-	-	-	-	-	43,245	43,245
Change in fair value of financial assets at fair value through other comprehensive income, net of deferred tax	-	949,314	-	-	-	-	949,314
Other comprehensive income for the year	-	949,314	-	-	-	43,245	992,559
At 31 December 2020	2,339,550	(21,619)	17,900	103,941	-	(26,004)	2,413,768

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 a result of the Company's capital reduction exercises which took place in the financial years of 2003 and 2006.
- (c) The balance of share-based payment reserve represents share options granted on 30 September 2015.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 34 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 2020 (2019: HK\$14,000) 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\$975,000 for the year ended 31 December 2020 (2019: HK\$5,690,000) represent retirement benefit contributions payable to this scheme by the Group.

## 35 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
			<b>2015 Share Options</b>
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
<b>Total number of share options granted</b>			<b>70,000,000</b>
Exercise price (HK\$)			1.604
Grant date			30 September 2015
Fair value on grant date (HK\$)			46,545,000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 35 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 ended 31 December 2019:

	2019 Number of options
Outstanding at 1 January	70,000,000
Expired during the year	(70,000,000)
Outstanding at 31 December	—

No share-based payment expenses were recognised by the Group for the year ended 31 December 2019 in relation to share options granted by the Company and all the share options granted by the Group were expired during the year ended 31 December 2019.

As at 31 December 2020 and 2019, there were no exercisable share options.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 36 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	2020 HK\$'000	2019 HK\$'000
Loan and interest receivables			
– Solar Ship	25(b)	–	22,378
Less: Impairment	25(b)	–	(22,378)
Trade payables			
– 深圳光啟超材料技術有限公司 (“深圳光啟超材”)		21,660	(83)

### (c) Related party transactions

Name of parties	Nature of transactions	Note	2020 HK\$'000	2019 HK\$'000
深圳光啟超材	Purchases of materials	(i)	16	5,744
	Purchases of wearable smart helmets	(i)	52,032	–
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

Notes:

- (i) The director and controlling shareholder of the Company, Dr. Liu R, is a controlling shareholder of 深圳光啟超材 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 which was fully repaid during the year ended 31 December 2019. 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. The maximum outstanding loan balance was HK\$9,731,000 during the year ended 31 December 2019 and the loan carried the interest at 8% per annum and was secured by the patents of Zwipe AS.
- (iii) As at 31 December 2020, a company which is controlled by Dr. Liu R provided a guarantee to a bank for the Group's banking facilities amounted to HK\$325,317,000 (2019: HK\$316,186,000), of which HK\$180,985,000 were utilised as at 31 December 2020 (2019: HK\$169,155,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 36 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:

	2020 HK\$'000	2019 HK\$'000
Salaries and other short-term benefits	6,154	7,747
Discretionary business	2,379	1,650
Retirement benefit scheme contributions	76	190
	<b>8,609</b>	<b>9,587</b>

### 37 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

For the year ended 31 December 2020

### 37 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)
<b>Fair value of net asset acquired</b>	<b>34,200</b>
<b>Consideration transferred:</b>	<b>HK\$'000</b>
Cash paid	10,260
Consideration payables	23,940
<b>Total consideration</b>	<b>34,200</b>

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 27). During the year ended 31 December 2020, the Group fully paid the balance of consideration.

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

	2019 HK\$'000
Cash consideration	34,200
Less: Consideration payables	(23,940)
<b>Cash and cash equivalents acquired</b>	<b>(2)</b>
	<b>10,258</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 37 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)
<b>Fair value of net assets acquired</b>	<b>35,900</b>
<b>Consideration transferred:</b>	<b>HK\$'000</b>
Cash paid	10,770
Consideration payables	25,130
<b>Total consideration</b>	<b>35,900</b>

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 27). During the year ended, the Group fully paid the balance of consideration.

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

	2019 HK\$'000
Cash consideration	35,900
Less: Consideration payables	(25,130)
<b>Cash and cash equivalents acquired</b>	<b>(2)</b>
	<b>10,768</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 38 DISPOSAL OF SUBSIDIARIES

### (a) Disposal of MACL

During the year ended 31 December 2020, the Group disposed of all its 52.01% equity interest in MACL to an independent third party at a consideration of US\$100.

#### (i) Details of the disposal were as follows:

	HK\$'000
Total consideration	1
Net assets disposed of	(44)
Non-controlling interest	23
Cumulative exchange difference reclassified from equity to profit or loss	(2)
<b>Loss on disposal</b>	<b>(22)</b>

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

	HK\$'000
Property, plant and equipment	–
Intangible assets and goodwill	–
Other receivables and prepayments	2
Cash and cash equivalents	651
Trade and other payables	(609)
<b>Net assets</b>	<b>44</b>

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

	HK\$'000
Proceeds received in cash	1
Cash in subsidiary disposed of	(651)
<b>Net cash outflow on disposal</b>	<b>(650)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 38 DISPOSAL OF SUBSIDIARIES (Continued)

### (b) Disposal of ZhongJing KuangChi Science Technology (HK) Co., Ltd

On 19 October 2020, the Group entered into a share transfer agreement with a minority shareholder of ZhongJing KuangChi Science Technology (HK) Co., Ltd (“ZhongJing”) (the “Purchaser”) pursuant to which the Group agreed to sell and the Purchaser agreed to purchase 50% equity interest in ZhongJing held by the Group at a consideration of HK\$15,000. ZhongJing was principally engaged in the trading of chips. The disposal was completed on 29 December 2020.

(i) Details of the disposal were as follows:

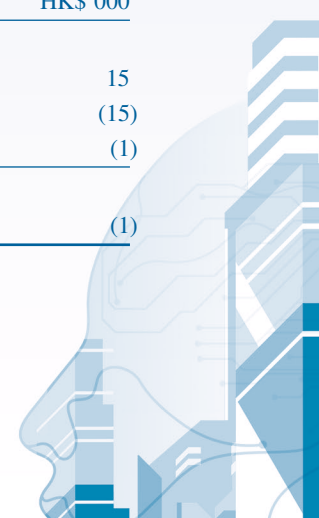
	HK\$'000
Total consideration	15
Net assets disposed of	(46,508)
Non-controlling interest	23,254
Waiver of amounts due by group companies	35,988
Gain on disposal	12,749

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

	HK\$'000
Trade and other receivables	10,528
Amounts due from group companies	41,535
Cash and cash equivalents	1
Trade and other payables	(9)
Amounts due to group companies	(5,547)
Net assets	46,508

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

	HK\$'000
Consideration	15
Less: consideration receivable	(15)
Cash in subsidiary disposed of	(1)
Net cash outflow on disposal	(1)





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 39 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Reconciliation of loss for the year to cash generated from/(used in) operations:

	Note	2020 HK\$'000	2019 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Loss before tax from continuing operations		(77,218)	(293,114)
Loss before tax from discontinued operation	14	(2,092)	(613)
Loss before tax		(79,310)	(293,727)
Adjustments for:			
Depreciation of property, plant and equipment		3,941	10,233
Amortisation of intangible assets		4,992	5,043
Amortisation of right-of-use assets		10,254	11,233
Write-down of inventories		257	3,313
Finance income		(1,007)	(1,343)
Gain on deregistration of subsidiaries		(138)	(93)
Gain on disposal of subsidiaries		(12,727)	–
Gain on deemed disposal of an associate		–	(5,987)
Gain on disposal of property, plant and equipment		–	(479)
Impairment loss on property, plant and equipment		–	3,200
Impairment loss on right-of-use assets		–	7,253
Impairment loss on investments in associates		–	38,767
Impairment loss on trade receivables		388	32,595
Impairment loss/(reversal of impairment loss) on contract assets		10,484	(329)
Impairment loss on prepayment and other receivables		–	1,376
Finance costs		33,009	22,623
Share of results of associates		–	27,900
Foreign exchange net		(7,016)	4,638
Operating cash flows before movements in working capital		(36,873)	(133,784)
Changes in inventories		(13,929)	(793)
Changes in trade and other receivables		107,641	17,446
Changes in contract assets		(7,136)	375
Changes in trade and other payables		(3,245)	(28,488)
Changes in contract liabilities		(3,895)	3,904
Changes in long-term deposits, prepayments and other receivables		–	1,925
Changes in deferred government grants		(6,093)	3,990
Cash generated from/(used in) operations		36,470	(135,425)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 39 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 2019	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
At 1 January 2020	1,766	169,155	335,250	–	506,171
Cash flows	(1,235)	569	(41,717)	–	(42,383)
Acquisition of leases	530	–	–	–	530
Currency translation differences	69	11,261	22,321	–	33,651
At 31 December 2020	1,130	180,985	315,854	–	497,969

#### (c) Total cash outflow for leases

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

	2020 HK\$'000	2019 HK\$'000
Within operating cash flows	7,078	9,765
Within financing cash flows	1,235	1,075
	8,313	10,840



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 40 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	2020 HK\$'000	2019 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>NON-CURRENT ASSETS</b>			
Investment in subsidiaries		216,343	216,343
Amounts due from subsidiaries		732,918	745,090
Total non-current assets		949,261	961,433
<b>CURRENT ASSETS</b>			
Prepayment and other receivables		34	25
Bank balances and cash		1,182	57,138
Total current assets		1,216	57,163
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		1,535	51,374
Amount due to a subsidiary		375	358
Total current liabilities		1,910	51,732
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<b>(694)</b>	5,431
<b>NET ASSETS</b>		<b>948,567</b>	966,864
<b>CAPITAL AND RESERVES</b>			
Share capital	32	61,569	61,569
Reserves		886,998	905,295
<b>TOTAL EQUITY</b>		<b>948,567</b>	966,864

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 40 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 2019	2,339,550	103,941	–	(1,174,228)	46,545	1,315,808
Loss for the year	–	–	–	(397,149)	–	(397,149)
Other comprehensive 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
At 1 January 2020	2,339,550	103,941	(5,386)	(1,532,810)	–	905,295
Loss and total comprehensive loss for the year	–	–	–	(18,297)	–	(18,297)
At 31 December 2020	2,339,550	103,941	(5,386)	(1,551,107)	–	886,998



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 41 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2020 and 2019 are disclosed as follows:

The principal subsidiaries of the Group at 31 December 2020 and 2019 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 2020	31 Dec 2019	
<b>Direct subsidiaries</b>						
KuangChi Science Holdings Limited	HK	HK	HK\$1	100%	100%	Provision of administrative and procurement services
MACL	New Zealand	New Zealand	NZ\$39,304,595	N/A	52.01%	Development and commercialisation of the Martin Jetpacks
<b>Indirect subsidiaries</b>						
* Shenzhen Kuang Chi Space Technology Limited	PRC	PRC	USD50,000,000	100%	100%	Provision of in-depth space services and other innovative technology business
* 深圳光啟空間技術有限公司						
* Dongguan Space Technology City Company Limited	PRC	PRC	USD35,000,000	100%	100%	Provision of innovative technology business
* 東莞空間科技城實業有限公司						
* Dongguan Advanced Technology Institute	PRC	PRC	RMB10,000,000	100%	100%	Provision of innovative technology business
* 東莞前沿技術研究院						
* Shenzhen Kuang-Chi Dream Technology Company Limited	PRC	PRC	USD70,000,000	100%	100%	Provision of in-depth space services and other innovative technology business
* 深圳光啟夢想科技有限公司						
# Shenzhen Kuang-Chi Manned Space Technology Company Limited	PRC	PRC	RMB40,000,000	100%	100%	Provision of in-depth space services and other innovative technology business
# 深圳光啟載人空間技術有限公司						
* Xian KuangChi Intelligent Technology Limited.	PRC	PRC	RMB10,000,000	100%	100%	Provision of innovative technology business
* 西安光啟智能技術有限公司						
* Chengdu KuangChi Space Technology Limited	PRC	PRC	RMB1,000,000	100%	100%	Provision of innovative technology business
* 成都光啟空間科技有限公司						
# Zhongjing KuangChi Science Technology (HK) Co., Limited	HK	HK	HK\$5,000,000	N/A	50%	Trading of chips
# 中京光啟科學技術(香港)有限公司						
裕正貿易(上海)有限公司	PRC	PRC	RMB20,000,000	100%	100%	Property holding
順耀投資諮詢(上海)有限公司	PRC	PRC	RMB20,000,000	100%	100%	Property holding

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 42 COMMITMENTS

Capital commitments outstanding at 31 December 2020 not provided for in the financial statements were as follows:

	2020 HK\$'000	2019 HK\$'000
Contracted for		
Property, plant and equipment	26,250	35,464

## 43 EVENTS AFTER THE REPORTING PERIOD

- (a) During the period from 20 January 2021 to 8 February 2021, the Group disposed of 15,245,891 ordinary shares of KCT in the open market through a series of transactions. The aggregate consideration on the disposal was RMB385,718,000 (equivalent to HK\$459,737,000).
- (b) On 7 February 2021, the Group entered into a sale 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 Bloom Gain Holdings Limited (“Bloom Gain”) and its subsidiaries at a cash consideration of HK\$52,000,000. The acquisition has not been completed up to the date of approval of these consolidated financial statements. Bloom Gain and its subsidiaries do not carry out any business and the sole purpose of acquiring the shares of Bloom Gain is to acquire a property held by its subsidiary in Shanghai, the PRC.



## FIVE-YEAR FINANCIAL SUMMARY

### CONSOLIDATED RESULTS

	Year ended 31 December				2020 HK\$'000
	2016 HK\$'000	2017 HK\$'000 (Restated)	2018 HK\$'000	2019 HK\$'000	
Revenue	290,492	306,192	158,406	60,822	<b>99,478</b>
Profit/(loss) before tax	737,464	283,471	(429,995)	(293,114)	<b>(77,218)</b>
Income tax expense	(140,430)	(99,225)	(3,452)	–	<b>(59)</b>
Profit/(loss) for the year from continuing operations	597,034	184,246	(433,447)	(293,114)	<b>(77,277)</b>
Loss for the year from discontinued operation	(490)	(250,858)	(64,169)	(613)	<b>(2,092)</b>
Profit/(loss) for the year	596,544	(66,612)	(497,616)	(293,727)	<b>(79,369)</b>
Attributable to:					
Owners of the Company	664,315	66,051	(457,609)	(294,436)	<b>(78,348)</b>
Non-controlling interest	(67,771)	(132,663)	(40,007)	709	<b>(1,021)</b>
	596,544	(66,612)	(497,616)	(293,727)	<b>(79,369)</b>

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				2020 HK\$'000
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	
Total assets	3,504,108	3,333,301	2,148,823	1,842,236	<b>2,843,044</b>
Total liabilities	(774,397)	(799,252)	(716,908)	(793,864)	<b>(904,759)</b>
	2,729,711	2,534,049	1,431,915	1,048,372	<b>1,938,285</b>
Share capital	60,894	61,569	61,569	61,569	<b>61,569</b>
Preferred share	–	–	–	–	<b>–</b>
Reserves	2,400,041	2,396,896	1,328,482	962,507	<b>1,876,718</b>
Equity attributable to owners of the Company	2,460,935	2,458,465	1,390,051	1,024,076	<b>1,938,287</b>
Non-controlling interest	268,776	75,584	41,864	24,296	<b>(2)</b>
Total equity	2,729,711	2,534,049	1,431,915	1,048,372	<b>1,938,285</b>