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# Quantum Thinking Limited

## 量子思維有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8050)**

### **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 MARCH 2019**

Reference is made to the announcement of Quantum Thinking Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 12 October 2018 in relation to, among others, the acquisition of the entire equity interest in Shenzhen Quantum Technology Information Co., Ltd.\* (深圳市量子科技訊息有限公司) (“**Shenzhen Quantum**”) (the “**Acquisition Announcement**”), the announcement of the Company dated 14 June 2019 in relation to the final results of the Group for the year ended 31 March 2019 (the “**2019 Final Results Announcement**”) and the annual report of the Group for the year ended 31 March 2019 (the “**2019 Annual Report**”). Unless otherwise defined, terms used herein shall bear the same meanings defined in the 2019 Final Results Announcement and the 2019 Annual Report.

#### **QUALIFIED OPINION**

As disclosed in the 2019 Final Results Announcement and the 2019 Annual Report, the Company’s auditor (the “**Auditor**”) issued a qualified opinion on the 2019 Final Results Announcement and the 2019 Annual Report.

As disclosed in the Acquisition Announcement, the Group during the year ended 31 March 2019 acquired the entire equity interest in Shenzhen Quantum, which owns 70% of the equity interests in CITIC Cyber Security (the “**Acquisition**”). Before the Acquisition, Shenzhen Quantum has entered into an investment agreement containing certain profit guarantee arrangement (the “**Profit Guarantee**”) with CITIC Technology Co., Ltd.\* (中信技術公司) (“**CITIC Technology**”), which owns 30% of the equity interests in CITIC Cyber Security. Details of the Profit Guarantee have been set out in the Acquisition Announcement.

The Directors of the Company have prepared a cashflow forecast and concluded that the fair values of the liability arising from the Profit Guarantee as at acquisition date and 31 March 2019 are insignificant and hence no liability has been provided as at acquisition date and 31 March 2019.

The Auditors were unable to obtain sufficient appropriate audit evidence to evaluate the reasonableness of the assumptions adopted by the Directors of the Company in estimating the expected timing and amounts of future cash flows generated by CITIC Cyber Security. Therefore, the Auditors were unable to reach a conclusion as to whether (i) the liability arising from the Profit Guarantee as at the acquisition date and 31 March 2019 and (ii) the resulting bargain purchase gain of HK\$7,488,000 for the year ended 31 March 2019 have been appropriately stated in the consolidated financial statements.

Any increase in the liability arising from the Profit Guarantee would affect the net assets of the Group as at 31 March 2019 and could also affect the Group's loss for the year then ended. There were no other alternative audit procedures that the Auditor could perform to satisfy themselves as to the fair value of the liability arising from the Profit Guarantee and the resulting purchase gain. Consequently, the Auditors were unable to determine whether any adjustments to these accounts were necessary.

## **THE MANAGEMENT'S POSITION AND BASIS**

The management of the Company considered that the liability arising from the Profit Guarantee as at acquisition date and 31 March 2019 was insignificant based on the estimated future cash flows generated by CITIC Cyber Security with reference to the progress of the projects, including those with contracts signed and those under negotiation or with no signed contracts. The Company was also negotiating with CITIC Technology on the potential waiver of the Profit Guarantee.

The Auditors were unable to obtain sufficient appropriate audit evidence to evaluate the reasonableness of the assumptions in estimating the expected timing and amounts of future cash flows generated by CITIC Cyber Security because the amounts of estimated income from projects with contracts signed were insignificant to support the cash flows estimated. As substantial portion of the future cash flows were not supported by contracted projects and were estimated based on the management's expectations on the Company's business development, the Auditors were unable to evaluate the reasonableness of the future cash flows generated by CITIC Cyber Security estimated by the management.

Nevertheless, the audit committee of the Company reviewed the status of CITIC Cyber Security and the development progress of the projects and was in agreement with the management's position and basis.

## **PROPOSED PLANS TO ADDRESS THE AUDIT QUALIFICATION**

To address the above audit qualification, the Company has considered the following options.

### **1. Waiver of the Profit Guarantee**

The Company has been negotiating with an independent third party investor to invest in CITIC Cyber Security (the "**Potential Investment**") and at the same time, is in discussion with CITIC Technology on the waiver of the Profit Guarantee. The Potential Investment will be beneficial to CITIC Technology as the fair value of CITIC Technology's equity interests in CITIC Cyber Security is expected to increase albeit slight dilution in the shareholding of CITIC Technology following the Potential

Investment. CITIC Technology can also obtain an updated valuation on its shareholding. Therefore, it is expected that CITIC Technology will proceed to waive the Profit Guarantee upon finalization of the terms of the Potential Investment.

Once the Profit Guarantee is waived, the Company will no longer be required to estimate the fair value of the liability arising from the Profit Guarantee.

## **2. Revision of the estimated cash flows generated by CITIC Cyber Security**

In the event that the Company fails to obtain the waiver of the Profit Guarantee, the Company will, during the first quarter of 2020, revise the estimated cash flows generated by CITIC Cyber Security based on the contracts signed at that time and provide for any liability arising from the Profit Guarantee in the consolidated financial statements accordingly. Thus, the Auditors will be able to assess the reasonableness of the revised estimate of future cash flows generated by CITIC Cyber Security and the fair value of the liability arising from the Profit Guarantee.

The above options will be able to address the audit qualification by 31 March 2020, and the Group's consolidated statement of financial position as of 31 March 2020 will not be subject to audit qualification.

## **3. Liquidation of Shenzhen Quantum**

The Profit Guarantee was given by Shenzhen Quantum but not the Company so it is not binding upon the Company.

According to the PRC legal advisers of the Company, (i) it is legally feasible under the PRC law to liquidate Shenzhen Quantum even if the Profit Guarantee cannot be met; and (ii) the Company's liability arising from the Profit Guarantee upon liquidation of Shenzhen Quantum will be limited to RMB7,270,000, which is the difference between the registered capital of Shenzhen Quantum of RMB10,770,000 and the loan of RMB3,500,000 that was used to settle the consideration of the Acquisition.

Accordingly, an option to address the audit qualification is to wind up Shenzhen Quantum and, in that case, the liability of the Company will be limited to the amount of RMB7,270,000. The Board of the Company considers such liability in the amount of RMB7,270,000 to be reasonably acceptable.

Nevertheless, the Board of the Company is of the view that the maximum liability of the Company in 2019 under the Profit Guarantee in the amount of RMB2,400,000 is manageable and affordable for the Company. Even if the Company is unable to obtain the waiver of the Profit Guarantee, it is unlikely for the Company to liquidate Shenzhen Quantum in the current financial year.

The Board confirms that the above supplemental information does not affect other information contained in the 2019 Final Results Announcement and the 2019 Annual Report and the contents of the 2019 Final Results Announcement and the 2019 Annual Report remain unchanged.

Further announcement(s) in relation to the material development of the aforesaid matter will be made by the Company as and when appropriate in accordance with the GEM Listing Rules.

By order of the Board  
**Quantum Thinking Limited**  
**Wang Xiaoqi**  
*Director*

Hong Kong, 4 October 2019

*As at the date of this announcement, the executive Directors are Mr. Wang Xiaoqi and Mr. Ho Yeung; and the independent non-executive Directors are Mr. Lau Chor Ki, Mr. Tse Yee Hin, Tony and Mr. Wong Kin Kee.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

*This announcement will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting and on the Company’s website at [www.8050hk.com](http://www.8050hk.com).*

\* *For identification purpose only*