弘達金融控股有限公司
HongDa Financial Holding Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1822)

AUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- The Group recorded a revenue of approximately HK$654.3 million for the year ended 31 December 2019 (2018: HK$1,097.6 million).
- The Group's net loss attributable to owners of the Company for the year ended 31 December 2019 amounted to approximately HK$691.6 million (2018: HK$227.0 million).
- The Board does not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: Nil).

The board of directors (the "Board") of HongDa Financial Holding Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019 together with the comparative audited figures for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
REVENUE	5	**654,318**	1,097,593
Cost of sales and services rendered		**(614,262)**	(1,031,644)
Gross profit		**40,056**	65,949
Other income, gains and losses, net	6	**(50,584)**	334,068
Allowances for expected credit losses ("ECLs") on trade receivables, loan and other receivables, net		**(382,779)**	(198,039)
Impairment of amount due from a joint venture		**–**	(15,003)
Impairment of amount due from an associate		**(8,783)**	–
Provision for financial guarantee		**(25,800)**	–
Selling and distribution expenses		**(7,860)**	(7,641)
Administrative expenses		**(100,517)**	(123,478)
Other expenses		**(6,823)**	(8,798)
(Loss)/profit from operation		**(543,090)**	47,058
Finance costs	7	**(158,603)**	(156,100)
Share of results of joint ventures		**(551)**	4,183
Share of results of an associate		**(4,480)**	(107,938)
LOSS BEFORE TAX	8	**(706,724)**	(212,797)
Income tax expense	9	**(14,350)**	(27,651)
LOSS FOR THE YEAR		**(721,074)**	(240,448)
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(502)**	1,752
Share of other comprehensive income of an associate		**–**	(1,814)
Other comprehensive income for the year		**(502)**	(62)
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(721,576)**	(240,510)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)
For the year ended 31 December 2019

	Note	2019	2018
		HK$'000	HK$'000
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(691,607)**	(226,976)
Non-controlling interests		**(29,467)**	(13,472)
		(721,074)	(240,448)
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(692,701)**	(226,982)
Non-controlling interests		**(28,875)**	(13,528)
		(721,576)	(240,510)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	*10*		
Basic and diluted (HK cent)		**(10.15)**	(3.37)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**22,696**	21,784
Investment property		**237,651**	250,549
Right-of-use assets		**2,760**	–
Goodwill		**–**	–
Intangible assets		**38,248**	38,970
Interests in joint ventures		**1,091**	1,642
Interest in an associate		**–**	2,985
Deferred tax assets		**–**	33,802
Long term prepayment and deposits		**–**	12,071
Financial assets at fair value through profit or loss (“FVTPL”)	*11*	**414,304**	543,700
		716,750	905,503
CURRENT ASSETS			
Inventories		**5,898**	6,722
Trade receivables	*12*	**348,405**	746,139
Loan receivable	*13*	**–**	–
Financial assets at FVTPL	*11*	**39,091**	–
Prepayments, deposits and other receivables		**25,434**	351,216
Tax recoverable		**444**	103
Restricted cash		**–**	11,973
Bank balances		**13,994**	17,912
		433,266	1,134,065

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
At 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
CURRENT LIABILITIES			
Trade payables	*14*	**244**	2,401
Other payables and accruals		**110,667**	143,935
Interest-bearing bank and other borrowings		**484,165**	360,077
Lease liabilities		**4,060**	–
Amounts due to joint ventures		**–**	2,462
Derivative financial instruments	*15*	**1,430**	220
Convertible bonds	*15*	**437,190**	93,675
Financial guarantee	*16*	**25,800**	–
Provision for obligation on a joint venture		**–**	3,087
Provision for reinstatement costs		**–**	600
		1,063,556	606,457
NET CURRENT (LIABILITIES)/ASSETS		**(630,290)**	527,608
TOTAL ASSETS LESS CURRENT LIABILITIES		**86,460**	1,433,111
NON-CURRENT LIABILITIES			
Other payables		**9**	4,281
Interest-bearing other borrowings		**16,670**	355,451
Lease liabilities		**2,800**	–
Derivative financial instruments	*15*	**–**	6,400
Convertible bonds	*15*	**–**	251,770
Deferred tax liabilities		**48,563**	68,398
		68,042	686,300
NET ASSETS		**18,418**	746,811
EQUITY			
Equity attributable to owners of the Company			
Share capital	*17*	**68,108**	68,108
Reserves		**9,514**	709,032
		77,622	777,140
Non-controlling interests		**(59,204)**	(30,329)
TOTAL EQUITY		**18,418**	746,811

NOTES

1. CORPORATE INFORMATION

HongDa Financial Holding Limited (the "Company") was incorporated in the Cayman Islands with limited liability. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. During the reporting period, the Company's principal place of business in Hong Kong has been changed from Suite 3618, Level 36, Two Pacific Place, 88 Queensway, Hong Kong to Suite 2603, 26th Floor, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

As at 31 December 2019, the directors of the Company are of the opinion that Sino Merchant Car Rental Limited ("Sino Merchant"), a company incorporated in the British Virgin Islands ("BVI"), is the immediate and ultimate holding company of the Company; Ms. Deng Shufen and Ms. Liu Jiangyuan, the shareholders of Sino Merchant, are the ultimate controlling parties of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are principally engaged in (i) provision of car rental and other services; (ii) trading of materials; and (iii) provision of financing services and investment holding.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise all applicable Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

Going concern assumption

For the year ended 31 December 2019, the Group incurred a loss of approximately HK$721,074,000 and as at 31 December 2019, the Group had net current liabilities of approximately HK$630,290,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. 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. The validity of the Group to operate as a going concern is dependent upon the successful outcomes of the Group to achieve the successful outcome of the plans and measures as described below, at a level sufficient to finance the working capital requirements of the Group for the next twelve months. Having considered the below plans and measures together with the cash flow projection, the directors considered that it is appropriate to adopt the going concern in preparing these consolidated financial statements.

In order to strengthen the Group's capital base and liquidity in the foreseeable future, the Group has taken the following plans and measures:

— negotiating with respective lenders to renew and extend existing borrowings upon their maturities, in which an extension agreement for the borrowings of HK$120,000,000 had been entered into between the Company and the lender to extend the repayment terms to 11 March 2021;

— Sino Merchant confirms its intention to provide adequate financial support to the Group as necessary to ensure the Group's continuing operation for a period of at least twelve months from the date of the letter of intention, i.e. 30 March 2020;

— implementing an active cost-saving measures to control administrative costs through various ways to improve operating cash flows at a level sufficient to sustain the working capital requirements of the Group; and

— reviewing its investments and actively considering to realise certain of investment properties and/or financial assets at FVTPL in order to enhance the financial position of the Group whenever it is necessary.

Based on the cash flow projections of the Group and having taken into account the available financial resources of the Group with the above measures, the directors have concluded that the Group is able to continue as a going concern and to meet their financial obligations as and when they fall due for the next twelve months. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and current liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HKFRSs

(a) Application of new and revised HKFRSs

The HKICPA has issued a new HKFRS, HKFRS 16 Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, and the related interpretations, HK(IFRIC) 4 Determining whether an Arrangement contains a Lease, HK(SIC) 15 Operating Leases-Incentives and HK(SIC) 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact or leases where the Group is the lessor. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

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

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

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

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting and transitional impact

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

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates at the date of initial application. The average incremental borrowing rates applied by the relevant group entities range from approximately 10.2% to 14.0%.

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

— elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

— applied a single discount rate to a portfolio of leases with a similar remaining term for similar class of underlying assets in a similar economic environment. Specifically, discount rate for certain leases of leasehold lands and properties was determined on a portfolio basis;

— used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options;

— excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

— relied on the assessment of whether leases are onerous by applying HKAS 37 as an alternative to an impairment review.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

The following table reconciles the operating lease commitments as at 31 December 2018 as disclosed in note 45 to the consolidated financial statements to the opening balance for lease liabilities recognised as at 1 January 2019:

	HK$'000
Operating lease commitments disclosed as at 31 December 2018	34,356
Less: Short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(26,117)
Total future interest expenses	(1,397)
Present value of remaining lease payments, discounted using the incremental borrowing rate and lease liabilities recognised as at 1 January 2019	6,842
Of which are:	
Current lease liabilities	2,638
Non-current lease liabilities	4,204
	6,842

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

The following table summarizes the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16	**Carrying amount as at 31 December 2018**	**Effects of adoption of HKFRS 16: Recognition of leases**	**Effects of adoption of HKFRS 16: Impairment recognised**	**Carrying amount as at 1 January 2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Right-of-use assets	–	6,842	(6,842)	–
Liabilities				
Lease liabilities	–	(6,842)	–	(6,842)

(iii) Impact of the financial results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their principal element and interest element. These elements are classified as financing cash outflows and operating cash outflows respectively. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 *HK$'000*	**Add back: HKFRS 16 depreciation and interest expense** *HK$'000*	**Deduct: Estimated amounts related to operating lease as if under HKAS 17** ***(note)*** *HK$'000*	**Hypothetical amounts for 2019 as if under HKAS 17** *HK$'000*	Compared to amounts reported for 2018 under HKAS 17 *HK$'000*
Consolidated financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
(Loss)/profit from operation	**(543,090)**	**140**	**(3,408)**	**(546,358)**	47,058
Finance costs	**(158,603)**	**614**	**–**	**(157,989)**	(156,100)
Loss before tax	**(706,724)**	**754**	**(3,408)**	**(709,378)**	(212,797)
Loss for the year	**(721,074)**	**754**	**(3,408)**	**(723,728)**	(240,448)

	2019			2018
	Amounts reported under HKFRS 16	**Estimated amounts related to operating leases as if under HKAS 17** ***(note)***	**Hypothetical amounts for 2019 as if under HKAS 17**	Compared to amounts reported for 2018 under HKAS 17
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*
Line items in the consolidated statement of cash flows for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from/(used in) operations	**201,898**	**(3,408)**	**198,490**	(99,506)
Interest element of lease paid	**(614)**	**614**	**–**	–
Net cash generated from/(used in) operating activities	**171,959**	**(2,794)**	**169,165**	(175,175)
Capital element of lease payments	**(2,794)**	**2,794**	**–**	–
Net cash (used in)/from financing activities	**(216,390)**	**2,794**	**(213,596)**	409,478

Note: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning on 1 January 2019. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3 Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8 Definition of Material	1 January 2020
Amendments to HKFRS 10 and HKAS 28	To be determined
Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform	1 January 2020

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4. SEGMENT INFORMATION

The Group has four operating segments as follows:

1. Car rental segment — primarily engages in the provision of car rental services;

2. Materials trading segment — primarily engages in the trading of materials;

3. Financing services and investments segment — primarily engages in money lending business through the provision of loans and financial investment holding; and

4. Others segment — engages in provision of other services, such as fund administration, public relations and property investment.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which except unallocated interest income, unallocated other income and gains, unallocated depreciation, unallocated finance costs as well as corporate and other unallocated expenses and share of results of joint ventures are excluded from such measurement.

Segment assets exclude certain financial assets at FVTPL, tax recoverable, cash and cash equivalents, restricted cash and other unallocated head office and corporate assets as these assets are managed on a group basis, as well as interests in joint ventures.

Segment liabilities exclude interest-bearing other borrowings, derivative financial instruments, convertible bonds, certain tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

	Car rental		Materials trading		Financing services and investments		Others		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales of goods	**–**	–	**632,540**	1,064,893	**–**	–	**–**	–	**632,540**	1,064,893
Car rental income	**20,252**	24,538	**–**	–	**–**	–	**–**	–	**20,252**	24,538
Loan interest income	**–**	–	**–**	–	**–**	–	**–**	43	**–**	43
Service income	**–**	–	**–**	–	**–**	–	**1,526**	8,119	**1,526**	8,119
Revenue	**20,252**	24,538	**632,540**	1,064,893	**–**	–	**1,526**	8,162	**654,318**	1,097,593
Segment results	**300**	(1,248)	**(286,359)**	(104,394)	**(20,112)**	69,187	**(64,451)**	(24,128)	**(370,622)**	(60,583)
Reconciliation:										
Unallocated interest income									**893**	3,190
Unallocated other income and gains									**6,210**	90,793
Unallocated depreciation									**(2,540)**	(3,146)
Corporate and other unallocated expenses									**(190,768)**	(93,390)
Unallocated finance costs									**(155,313)**	(153,844)
Share of losses of joint ventures									**(551)**	4,183
Loss before tax									**(706,724)**	(212,797)
Segment assets	**66,917**	64,484	**325,548**	786,641	**403,863**	637,294	**254,611**	325,283	**1,050,939**	1,813,702
Reconciliation:										
Corporate and other unallocated assets									**99,077**	225,866
Total assets									**1,150,016**	2,039,568
Segment liabilities	**42,438**	31,268	**–**	–	**–**	–	**39,144**	88,222	**81,552**	119,490
Reconciliation:										
Corporate and other unallocated liabilities									**1,050,046**	1,173,267
Total liabilities									**1,131,598**	1,292,757
Other segment information:										
Finance costs	**2,404**	2,223	**–**	–	**–**	–	**886**	33	**3,290**	2,256
Depreciation	**4,595**	5,728	**–**	–	**–**	–	**257**	75	**4,852**	5,803
Impairment of property, plant and equipment	**–**	1,119	**–**	–	**–**	–	**–**	–	**–**	1,119
Impairment of intangible assets	**–**	924	**–**	–	**–**	–	**–**	–	**–**	924
Capital expenditure	**14,407**	8,484	**–**	–	**–**	–	**–**	–	**14,407**	8,484

	The United States		The PRC		Hong Kong		Others		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**–**	–	**23,034**	27,834	**631,284**	1,069,759	**–**	–	**654,318**	1,097,593
Non-current assets	**274,535**	300,017	**431,677**	507,510	**13,592**	97,976	**–**	–	**716,750**	905,503
Non-current assets (excluding financial instruments)	**237,936**	263,218	**61,859**	60,837	**2,651**	37,748	**–**	–	**302,446**	361,803

Revenue from major customers

Revenues from customers of corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2019	2018
	HK$'000	*HK$'000*
Customer A	**278,932**	441,739
Customer B	**190,354**	184,929
Customer C	**94,402**	343,193
Customer D	**66,214**	–*

* The customer did not contribute over 10% of the total revenue of the Group for the year ended 31 December 2018.

5. REVENUE

Disaggregation of revenue from contract with customers by major products or service line for the year is as follows:

	2019 *HK$'000*	2018 *HK$'000*
Revenue		
Within the scope of HKFRS 15:		
Sales of goods	**632,540**	1,064,893
Service income	**1,526**	8,119
Other sources:		
Car rental income	**20,252**	24,538
Loan interest income	**–**	43
	654,318	1,097,593

The Group derives revenue from the transfer of goods and services at a point in time and over time in the following major product line and geographical regions:

	2019 *HK$'000*	2018 *HK$'000*
Time of revenue recognition:		
At a point in time	**634,066**	1,073,012
Geographical market:		
The PRC	**2,782**	8,119
Hong Kong	**631,284**	1,064,893
	634,066	1,073,012

6. OTHER INCOME, GAINS AND LOSSES, NET

	2019	2018
	HK$'000	*HK$'000*
Other income		
Bank interest income	**36**	45
Other interest income	**29,566**	26,124
Dividend income from unlisted equity investments	**–**	9,708
Rental and management fee income	**–**	553
Waiver of amount due to a joint venture	**1,765**	–
Others	**641**	835
	32,008	37,265
Gains and losses, net		
Gain on disposal of items of property, plant and equipment, net	**1,084**	2,109
Fair value (loss)/gain on investment property	**(11,681)**	26,330
Fair value (loss)/gain on financial assets at FVTPL	**(89,963)**	177,571
Fair value gain on derivative financial instruments in relation to convertible bonds	**6,210**	90,793
Gain on disposal of listed securities	**881**	–
Gain on disposal of a subsidiary	**10,877**	–
	(82,592)	296,803
	(50,584)	334,068

7. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest on lease liabilities	**614**	–
Interest on bank and other borrowings	**52,091**	64,285
Interest on convertible bonds	**105,765**	91,554
Bank charges	**133**	261
	158,603	156,100

8. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2019	2018
	HK$'000	*HK$'000*
Cost of inventories sold	**601,436**	1,009,641
Depreciation on property, plant and equipment *(note a)*	**7,252**	8,949
Depreciation on right-of-use assets *(note a)*	**140**	–
Operating lease payments *(note b)*		
— Land and buildings	**–**	15,151
— Motor vehicles	**–**	10,751
Auditor's remuneration		
— audit services	**2,510**	1,900
— non-audit services	**379**	200
Employee benefit expenses (including directors' emoluments):		
Wages, salaries allowances, bonuses and benefits in kind	**27,819**	47,264
Pension scheme contributions (defined contribution schemes) *(note c)*	**2,103**	6,157
	29,922	53,421
Exchange losses, net	**116**	36
Research expenses	**2,501**	9,486
Fair value gain on derivative financial instruments in relation to convertible bonds	**(6,210)**	(90,793)
Loss on modification of convertible bonds	**–**	5,700
Fair value loss/(gain) on financial assets at FVTPL	**89,963**	(177,571)
Fair value loss/(gain) on investment property	**11,681**	(26,330)
Allowances for ECL on trade receivables	**383,708**	181,396
Reversal of allowance for ECL on trade receivables	**(85,970)**	–
Allowances for ECL on loan receivable	**–**	15,629
Allowances for ECL on other receivables	**86,055**	1,014
Reversal of allowance for ECL on other receivables	**(1,014)**	–
Provision for financial guarantee	**25,800**	–
Impairment of property, plant and equipment	**–**	1,119
Impairment of intangible assets *(note d)*	**–**	924
Impairment of amount due from a joint venture	**–**	15,003
Impairment of amount due from an associate	**8,783**	–
Write-off of inventories *(note d)*	**35**	16
Write-off of property, plant and equipment *(note d)*	**661**	500
Write-off of other receivables	**1,481**	–
(Gain)/loss on disposal of subsidiaries	**(10,877)**	1,001
Gain on disposal of items of property, plant and equipment, net	**(1,084)**	(2,109)
Gain on disposal of listed securities	**(881)**	–

Notes:

(a) Depreciation on property, plant and equipment and right-of-use assets of approximately HK$4,522,000 (2018: HK$5,623,000) and HK$72,000 (2018: Nil) are included in cost of sales and services rendered.

(b) Operating lease payments of approximately Nil (2018: HK$10,751,000) are included in cost of sales and services rendered.

(c) As at 31 December 2019 and 2018, the Group had no forfeited contributions available to reduce its contributions to its pension schemes in future years.

(d) The amounts are included in other expenses.

9. INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
Current — Hong Kong Profits Tax		
Over-provision in prior years	**–**	(27)
Current — Elsewhere		
Over-provision in prior years	**(20)**	(79)
Withholding tax	**–**	970
Deferred tax	**14,370**	26,787
	14,350	27,651

Under the two-tiered profits tax regime, profits tax rate for the first HK$2 million of assessable profits of qualifying corporations established in Hong Kong will be lowered to 8.25%, and profits above that amount will be subject to the tax rate of 16.5%.

PRC Enterprise Income Tax has been provided at a rate of 25% (2018: 25%).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Under the PRC tax law, dividends received by foreign investors from its investment in foreign-invested enterprises in respect of its profits earned since 1 January 2008 are subject to withholding tax at a rate of 10%.

The reconciliation between the income tax expense and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2019	2018
	HK$'000	*HK$'000*
Loss before tax	**(706,724)**	(212,797)
Tax at Hong Kong Profits Tax rate of 16.5% (2018: 16.5%)	**(116,609)**	(35,112)
Effect of difference in tax rate/tax rule for specific jurisdiction or enacted by local tax authority	**(6,864)**	(2,248)
Losses attributable to joint ventures and an associate	**830**	17,120
Withholding tax	**–**	970
Income not subject to tax	**(35,786)**	(32,886)
Expenses not deductible for tax	**40,269**	54,038
Tax losses not recognised	**132,911**	25,947
Over-provision in prior years	**(20)**	(106)
Others	**(381)**	(72)
Income tax expense	**14,350**	27,651

10. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK$691,607,000 (2018: HK$226,976,000) and the weighted average number of ordinary shares of 6,810,750,454 (2018: 6,741,569,796) in issue during the year.

During the year, no adjustment had been made to the basic loss per share amounts presented in respect of a dilution as the impact of the potential dilutive ordinary shares outstanding had an anti-dilutive effect on the basic loss per share amounts presented for the year.

The calculation of basic and diluted loss per share is based on:

	2019	2018
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to owners of the Company used in the basis and diluted loss per share calculation	**(691,607)**	(226,976)

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation	**6,810,750,454**	6,741,569,796

11. FINANCIAL ASSETS AT FVTPL

	2019	2018
	HK$'000	*HK$'000*
Non-current financial assets designated at FVTPL		
An acquired convertible bond *(note a)*	**–**	39,659
An unlisted fund investment *(note b)*	**10,941**	20,569
Unlisted equity investments *(note c)*	**403,363**	483,472
	414,304	543,700
Current financial assets designated at FVTPL		
An acquired convertible bond *(note a)*	**39,091**	–

Notes:

(a) An acquired convertible bond

On 13 April 2017, the Company subscribed for a convertible bond ("Acquired Convertible Bond") with a principal amount of HK$40,000,000 which was issued by Bartha International Limited (the "Bond Issuer"), an independent third party incorporated in Hong Kong. The maturity date of the Acquired Convertible Bond is 7 April 2020.

The Acquired Convertible Bond is convertible into shares of the Bond Issuer at the option of the Company at any time commencing from the date of issue and up to and including the 10th day prior to the date of maturity. Exact number of shares to be issued upon conversion will depend on the total number of shares of the Bond Issuer at the time of conversion and the amount of the Acquired Convertible Bond to be converted into shares. The Acquired Convertible Bond carries interest at a rate of 2.0% per annum, which is payable annually.

(b) An unlisted fund investment

On 26 May 2018, the Group subscribed for an unlisted fund investment at a cost of HK$100,000,000, representing 100,000 fund units out of the total 300,000 fund units.

For investment inside the unlisted fund, in the absence of quoted market prices in active markets, the fair value of this investment under Level 2 is estimated by making reference to quoted prices from pricing services based on the net asset value of the unlisted fund investment.

(c) Unlisted equity investments

	2019	2018
	HK$'000	*HK$'000*
Unlisted equity investments *(note (iv))*		
Zhongxin (Heilongjiang) Internet Microfinance Co., Ltd.* *(note i)*	**165,390**	175,344
Zuoshishi Technology Service (Beijing) Company Limited* *(note ii)*	**201,374**	270,987
Spring Power Holdings Limited *(note iii)*	**36,599**	36,799
Higgs Wood Culture (Beijing) Co., Ltd.*	**–**	342
	403,363	483,472

* The English name of these entities referred to in this note represented management's best efforts in translating the Chinese name of these entities as no English name has been registered or available.

(i) As at 31 December 2019 and 2018, the Group has 2% of the issued share capital of an unlisted company incorporated in the PRC principally engaged in internet microfinance business.

In the current year, the management engaged an independent qualified professional valuer to determine the fair value of this investment with reference to publicly available information of comparable companies applying a marketability discount. The valuer adopted the market approach to determine the valuation parameters derived from market prices and financial data of listed companies in a similar business and with a similar business model as that of the company being valued. The valuer applied a discount rate of 20% for the lack of liquidity of business operation being valued due to the fact that it was not a listed company.

(ii) As at 31 December 2019 and 2018, the Group has 11% of the issued share capital of an unlisted company incorporated in the PRC principally engaged in the innovation service for start-up technology companies and related investment activities.

In the current year, the management engaged an independent qualified professional valuer to determine the fair value of this investment with price of recent investment given the existence of recent transaction relevant to this unlisted company.

(iii) As at 31 December 2019 and 2018, the Group has 2.9% of the issued share capital of an unlisted company incorporated in the BVI. The investee is an investment holding company, with a major subsidiary, Hanson Robotics Limited, engaged in development and manufacture of humanlike robots.

In the current year, the management engaged an independent qualified professional valuer to determine the fair value of this investment with price of recent investment given the existence of recent transaction and investment for the equity interest in this unlisted company.

(iv) The fair values of these unlisted equity investments are measured using valuation technique with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy.

12. TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**834,321**	934,358
Less: Allowance for ECLs	**(485,916)**	(188,219)
	348,405	746,139

The Group's trading terms with its customers are mainly on credit with credit period generally from 15 to 160 days, or could be longer under certain circumstances. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Overdue trade receivables are interest-bearing.

The Group generally does not hold any collateral or other credit enhancements over its trade receivable balances.

As at 31 December 2019, certain of the Group's other borrowings were secured by the Group's pledge trade receivables of gross amount approximately HK$600,639,000 (2018: HK$665,606,000).

The ageing analysis of the trade receivables based on the invoice date, and net of allowance, is as follows:

	2019	2018
	HK$'000	*HK$'000*
Within 90 days	**587**	2,067
90 to 180 days	**1,229**	3,908
Over 180 days	**346,589**	740,164
Total	**348,405**	746,139

13. LOAN RECEIVABLE

	2019	2018
	HK$'000	*HK$'000*
Loan receivable	**15,629**	15,629
Less: Allowance for ECLs	**(15,629)**	(15,629)
Current portion	**–**	–

Loan receivable is secured, bears interest at 15% per annum and is repayable with a maturity period of 18 months from the date of agreement and was due on 21 March 2019.

As at 31 December 2019 and 2018, the loan receivable was secured by (i) the pledge of an aircraft leased to an independent borrower by a company wholly owned by the borrower's sole director; and (ii) 49% issued share capital of the borrower.

As at 31 December 2019, the allowance for ECLs is related to an individually impaired loan receivable of the independent borrower of approximately HK$15,629,000 (2018: HK$15,629,000) that default its repayment due on 21 March 2019.

14. TRADE PAYABLES

The ageing analysis of trade payables, based on the invoice date is as follows:

	2019	2018
	HK$'000	*HK$'000*
Within 30 days	**156**	518
31 to 60 days	**29**	1,014
Over 60 days	**59**	869
	244	2,401

The trade payables are non-interest-bearing and normally settled on 30 to 90 days after the month-end statement.

15. CONVERTIBLE BONDS

On 17 May 2016, the Company issued 2018 convertible bond (the "2018 CB") and 2019 convertible bond (the "2019 CB") with principal amounts of HK$100,000,000 and HK$100,000,000 respectively. The maturity dates of 2018 CB and 2019 CB are 16 May 2018 and 16 May 2019, respectively.

The 2018 CB and 2019 CB are convertible at the option of bondholder at any time after the 40th day from the date of issue and up to the 10th day prior to the dates of maturity at an initial conversion price of HK$0.35 per share (subject to adjustments). Based on the initial conversion price, the 2018 CB and 2019 CB are convertible into approximately 571,429,000 ordinary shares of the Company in aggregate. The 2018 CB and the 2019 CB, if not converted, will be redeemed at their outstanding principal amount together with any interest thereon, plus an additional amount of a compound return of 12% per annum over the outstanding principal amount at maturity. The 2018 CB and the 2019 CB carry interest at a rate of 5% per annum, payable semi-annually on 30 June and 31 December of a calendar year. The effective interest rates of the liability components of the 2018 CB and 2019 CB are 22.8% and 23.5%, respectively.

On 10 May 2018, the Company and the bondholder of 2018 CB entered into a deed of amendment, pursuant to which the maturity date of 2018 CB was extended from 16 May 2018 to 16 May 2020 and the interest rate was increased from 5% per annum to 6% per annum. Interest payment dates were not changed. To effect the extension, the bondholder requested the Company to settle the additional amount as described above and an amount of HK$15,440,000 was paid thereof. The effective interest rate of the liability component of the extended 2018 CB is 25.5%.

On 15 May 2019, the Company and the bondholder of 2019 CB entered into a deed of amendment, pursuant to which the maturity date of 2019 CB was extended from 16 May 2019 to 16 May 2021, the conversion price of 2019 CB was decreased from HK$0.35 to HK$0.1 per share and the interest rate was increased from 5% per annum to 6% per annum. Interest payment dates were not changed. To effect the extension, the bondholder requested the Company to settle the additional amount as described above and an amount of approximately HK$25,493,000 was paid thereof. The effective interest rate of the liability component of the extended 2019 CB is 10.7%.

Both 2018 CB and 2019 CB have the following early redemption options. 2018 CB and 2019 CB holders have the right to require the Company to redeem the whole of the 2018 CB and 2019 CB respectively held by them prior to the maturity date at a redemption price equal to the respective principal amount of 2018 CB and 2019 CB together with accrued and unpaid interest and the additional amount upon the occurrence of certain events that are out of the Company's control.

In addition, for both 2018 CB and 2019 CB, the Company may, at any time prior to the maturity date, redeem in whole the 2018 CB and 2019 CB for the time being outstanding at their principal amount together with accrued and unpaid interest and the additional amount to the date fixed by the Company for redemption provided that at the date of redemption, at least 90% in principal amount of the 2018 CB and 2019 CB has already been converted, redeemed or purchased and cancelled.

As such, the conversion option and the early redemption options are considered as a single derivative for fair value measurement purpose.

On 31 August 2017, the Company issued 2020 convertible bond (the "2020 CB") with a principal amount of HK$200,000,000. The maturity date of 2020 CB is 30 August 2020.

The 2020 CB is convertible at the option of the bondholder at any time from and including the first anniversary from its date of issue up to the 10th day prior to the dates of maturity at an initial conversion price of HK$0.35 per share (subject to adjustments). Based on the initial conversion price, the 2020 CB is convertible into approximately 571,429,000 ordinary shares of the Company. The 2020 CB, if not converted, will be redeemed at its outstanding principal amount together with any interest accrued thereon. The 2020 CB carries interest at a rate of 8% per annum, which is payable semi-annually on 18 June and 18 December of a calendar year. The effective interest rate of the liability component of the 2020 CB is 24.2%.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond if the conversion option is not exercised. The conversion options embedded in the convertible bonds were recognised as derivative financial instruments and were measured at fair value on initial recognition and remeasured at each subsequent reporting date.

The movements of the liability and derivative components of the convertible bonds for the year are set out below:

	Liability components *HK$'000*	Derivative components *HK$'000*	Total *HK$'000*
At 1 January 2018	316,854	70,813	387,667
Loss on modification of 2018 CB	(20,900)	26,600	5,700
Interest expenses	91,554	–	91,554
Interest paid	(42,063)	–	(42,063)
Fair value gain	–	(90,793)	(90,793)
At 31 December 2018 and 1 January 2019	345,445	6,620	352,065
Movements upon modification of 2019 CB	(1,020)	1,020	–
Interest expenses	105,765	–	105,765
Interest paid	(13,000)	–	(13,000)
Fair value gain	–	(6,210)	(6,210)
At 31 December 2019	437,190	1,430	438,620
Represented by:			
At 31 December 2019			
Current portion	437,190	1,430	438,620
At 31 December 2018			
Current portion	93,675	220	93,895
Non-current portion	251,770	6,400	258,170
	345,445	6,620	352,065

The derivative component is measured at its fair value at the end of each reporting period. The fair values are estimated using Binominal model (level 3 fair value measurements). The key assumptions used are as follows:

	2019	2018
Weighted average share price	**0.013**	0.11
Weighted average exercise price	**0.1–0.35**	0.35
Expected volatility	**79.5%–124.08%**	70%–91%
Expected life	**2–3**	2–3
Risk free rate	**1.79%–2.07%**	1.73%–1.77%

16. FINANCIAL GUARANTEE

	2019	2018
	HK$'000	*HK$'000*
Fair value of financial guarantee	**25,800**	–

As at 31 December 2019, the Group provided a corporate guarantee in favour of an independent third party in respect of a loan facility granted to an associate of the Group up to an aggregate amount of approximately HK$204,960,000 (2018: HK$204,960,000), of which approximately HK$29,900,000 (2018: HK$17,656,000) has been utilised. The financial liabilities in respect to the aforementioned guarantee had not been recognised as at 31 December 2018 as the fair value of this guarantee was immaterial to the consolidated financial statements for the year ended 31 December 2018.

17. SHARE CAPITAL

Shares:

	2019	2018
	HK$'000	*HK$'000*
Authorised		
20,000,000,000 (2018: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
6,810,750,454 (2018: 6,810,750,454) ordinary shares of HK$0.01 each	**68,108**	68,108

A summary of the movements in the Company's issued share capital is as follows:

	Number of ordinary shares	**Issued capital**	**Share premium account**	**Total**
	'000	*HK$000*	*HK$000*	*HK$000*
At 1 January 2018	6,634,170	66,342	1,009,032	1,075,374
Issue of ordinary shares on placing *(note)*	176,580	1,766	50,681	52,447
At 31 December 2018, 1 January 2019 and 31 December 2019	**6,810,750**	**68,108**	**1,059,713**	**1,127,821**

Note:

On 4 May 2018, the Company entered into a conditional placing agreement with an independent placing agent whereby the Company conditionally agreed to place, through the placing agent, up to 176,580,000 placing shares to not less than six independent placees at a price of HK$0.3 per placing share (the "Placing"). On 23 May 2018, an aggregate of 176,580,000 new shares were placed at HK$0.3 per placing share. The proceeds were credited to the share capital account at par at HK$0.01 per share amounted to approximately HK$1,766,000. The remaining of the proceeds from the placing of new shares of approximately HK$50,681,000, net of transaction costs, were credited to the Company's share premium account. The Placing was completed on 23 May 2018.

The Group's objective when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The externally imposed capital requirement for the Group is to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares.

MATERIAL DIFFERENCES BETWEEN UNAUDITED AND AUDITED ANNUAL RESULTS

Pursuant to the financial information contained in the unaudited annual results announcement was neither audited by nor agreed with the auditors of the Company as at the date of its publication and subsequent adjustments have been made to such information, shareholders and potential investors of the Company are advised to pay attention to certain differences between the financial information of the unaudited and audited annual results of the Group. Set forth below are details and reasons for the material differences in such financial information in accordance with Rule 13.49(3)(ii)(b) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

Consolidated Statement of Profit or Loss

	For the year ended 31 December 2019			
	Audited	**Unaudited**	**Difference**	
	HK$'000	*HK$'000*	*HK$'000*	*Notes*
Cost of sales and services rendered	(614,262)	(619,511)	5,249	*i*
Other income, gains and losses, net	(50,584)	(59,820)	9,236	*i*
Provision for financial guarantee	(25,800)	–	(25,800)	*ii*
Impairment of amount due from an associate	(8,783)	–	(8,783)	*iii*
Share of results of joint ventures	(551)	3,592	(4,143)	*i*
Loss before tax	(706,724)	(679,585)	(27,139)	
Income tax expense	(14,350)	21,765	(36,115)	*iv*
Loss for the year	(721,074)	(657,820)	(63,254)	

Consolidated Statement of Financial Position

	At 31 December 2019			
	Audited	**Unaudited**	**Difference**	
	HK$'000	*HK$'000*	*HK$'000*	*Notes*
Non-current assets				
Property, plant and equipment	22,696	17,828	4,868	*v*
Right-of-use assets	2,760	10,815	(8,055)	*v*
Intangible assets	38,248	36,220	2,028	*v*
Deferred tax assets	–	33,802	(33,802)	*iv*
Financial assets at FVTPL	414,304	452,062	(37,758)	*vi*
Current assets				
Financial assets at FVTPL	39,091	–	39,091	*vi*
Prepayments, deposits and other receivables	25,434	39,011	(13,577)	*iii&vii*
Current liabilities				
Other payables and accruals	110,667	113,685	(3,018)	*vii*
Interest-bearing bank and other borrowings	484,165	379,112	105,053	*vi*
Financial guarantee	25,800	–	25,800	*ii*
Non-current liabilities				
Interest-bearing other borrowings	16,670	123,286	(106,616)	*vi*

Notes:

i The differences were mainly due to the reclassification of some figures in cost of sales and services rendered, other income, gains and losses, net and share of results of joint ventures.

ii The differences were mainly due to the recognition of financial liabilities in relation to the fair value of a financial guarantee provided to an associate in respect of a loan facility.

iii The differences were mainly due to the impairment of an amount due from an associate as a result of significant losses incurred by an associate.

iv The differences were mainly due to the derecognition of deferred tax assets in relation to the allowance for ECLs on trade receivables as it is no longer probable that sufficient taxable profit will be available to allow the deferred tax assets to be utilised.

v The differences were mainly due to the reclassification of some figures in property, plant and equipment, right-of-use assets, and intangible assets.

vi The differences were mainly due to the reclassification of some figures in financial assets at FVTPL under non-current assets to financial assets at FVTPL under current assets, and in interest-bearing other borrowings under non-current liabilities to interest-bearing other borrowings under current liabilities.

vii The differences were mainly due to the reclassification of some figures in prepayments, deposits and other receivables and other payables and accruals.

Save as disclosed in this announcement and the corresponding adjustments related to the above differences, there is no material change in other information contained in the unaudited results announcement.

EXTRACT OF THE AUDITOR'S REPORT

The following is the extract of the independent auditor's report from the auditor on the Group's consolidated financial statements for the year ended 31 December 2019:

Basis for Opinion

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

Material uncertainty related to going concern

We draw attention to note 2 to the consolidated financial statements which indicate that the Group incurred a loss of approximately HK$721,074,000 for the year ended 31 December 2019 and as at 31 December 2019, the Group had net current liabilities of approximately HK$630,290,000. These conditions, along with other matters as set forth in note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon the outcomes of the Group's plans and measures as set forth in note 2 to the consolidated financial statements to obtain source of funding in the immediate and longer term, at a level sufficient to finance the working capital requirements of the Group in the foreseeable future. Our opinion is not modified in respect of this matter.

THE BOARD AND THE AUDIT COMMITTEE'S VIEW

In order to strengthen the Group's capital base and liquidity in the foreseeable future, the Group has taken the following plans and measures:

— negotiating with respective lenders to renew and extend existing borrowings upon their maturities, in which an extension agreement for the borrowings of HK$120,000,000 had been entered into between the Company and the lender to extend the repayment terms to 11 March 2021;

— Sino Merchant confirms its intention to provide adequate financial support to the Group as necessary to ensure the Group's continuing operation for a period of at least twelve months from the date of the letter of intention, i.e. 30 March 2020;

— implementing an active cost-saving measures to control administrative costs through various ways to improve operating cash flows at a level sufficient to sustain the working capital requirements of the Group; and

— reviewing its investments and actively considering to realise certain of investment properties and/or financial assets at FVTPL in order to enhance the financial position of the Group whenever it is necessary.

Based on the cash flow projections of the Group and having taken into account the available financial resources of the Group with the above measures, the directors have concluded that the Group is able to continue as a going concern and to meet their financial obligations as and when they fall due for the next twelve months. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and current liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Car Rental Business

During the year, Beijing Tu An Car Rental Services Limited* (北京途安汽車租賃有限責任公司), the Group's indirect wholly-owned subsidiary, continued to render the car rental services business in China. For the year ended 31 December 2019, the car rental segment recorded a revenue of approximately HK$20.3 million (2018: HK$24.5 million) and a gross profit of approximately HK$2.2 million (2018: HK$1.5 million), representing a gross profit margin of approximately 10.8% (2018: 6.2%). The Group will maintain its developmental strategies in order to enhance its capacity and capture incremental market share.

Materials Trading Business

In 2019, the macroeconomy around the world was filled with uncertainties and economic upheaval, which led to a decline in the materials trading volume during the year. For the year ended 31 December 2019, the Group's materials trading segment recorded a revenue of approximately HK$632.5 million (2018: HK$1,064.9 million) and a gross profit of approximately HK$32.1 million (2018: HK$55.1 million), representing a gross profit margin of approximately 5.1% (2018: 5.2%).

Financing Services and Investment Business

The Group, through a wholly-owned subsidiary, continued to conduct money lending business in Hong Kong through the provision of loans, by utilising a money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).

Having considered the risk of financing and investment business, the income contribution to and the existing financial position of the Group, the management decided to close its wholly-owned subsidiary, HongDa Securities Limited, and deregistered with the Securities and Futures Commission (SFC) as a Type 1 licensed corporation. The Group will be more cautious in controlling business risks and reducing expansion in new business and will keep looking for an opportunity to divest.

FUTURE OUTLOOK

Although a partial trade agreement between the United States and China was signed, it did not represent a definitive cooling of the trade war or a means of resolving continuing tensions between the two countries over technological and geopolitical issues. In terms of Hong Kong, the business environment is becoming more precarious in light of on-going social unrest, which will exacerbate the slowdown in all industries and exert pressure on economic growth.

* *The English name of this entity represented managements best knowledge in translating the Chinese name as no English name has been registered or available.*

Looking forward, the Group expects that the market in 2020 will remain challenging and demanding. The competitive and volatile operating environment in the financial industry in Hong Kong will continue to exert pressure on the market. Despite the foregoing, the Group will continue to pursue long-term business and profitability growth in line with its corporate mission and goals. The Group will continue to adopt prudent capital management and liquidity risk management to preserve adequate buffer to meet the challenges ahead. We believe that the Group will create fruitful return for our shareholders in the long run.

The scope and intensity of the recent outbreak of COVID-19 worldwide is expected to create disruptions and uncertainties in economic and business activities of population in the countries affected. The extent to which national and global economies and financial markets would be adversely impacted, would be difficult to predict with any accuracy at this stage. However, one encouraging sign has emerged that the incumbent governments of developed economies have implemented aggressive policies and measures to mitigate the unfavourable effects and to lend support to their respective economy. The Group will continue to monitor the situation closely and any financial impact on the operations of the Group, which would be reflected in the consolidated financial statements of the Group for the financial year 2020.

FINANCIAL REVIEW

Results of the group

Revenue

During the year ended 31 December 2019, the Group recorded a revenue of approximately HK$654.3 million, which represented a decrease of approximately 40.4% as compared to the revenue of approximately HK$1,097.6 million as recorded for the year ended 31 December 2018. The decrease was mainly resulted from the decrease in materials trading volume from approximately HK$1,064.9 million for the year ended 31 December 2018 to approximately HK$632.5 million for the year ended 31 December 2019.

Cost of sales and services rendered

Cost of sales and services rendered of the Group declined by approximately 40.5% from approximately HK$1,031.6 million for the year ended 31 December 2018 to approximately HK$614.3 million for the year ended 31 December 2019. The decrease was mainly attributable to the decrease in sales volume of materials trading during the year.

Gross profit and margin

The Group recorded a gross profit of approximately HK$40.1 million for the year ended 31 December 2019, representing a decrease of approximately 39.3% as compared to the gross profit recorded in the prior year. The gross profit margin increased by approximately 0.1% from 6.0% for the year ended 31 December 2018 to 6.1% for the year ended 31 December 2019.

Other income, gains and losses, net

Other income, gains and losses, net of the Group decreased by approximately 115.1%, from net gains of approximately HK$334.1 million for the year ended 31 December 2018 to net losses of approximately HK$50.6 million for the year ended 31 December 2019. The decrease was primarily due to the net effect of the (i) fair value loss on financial assets at FVTPL of approximately HK$90.0 million (2018: fair value gain on financial assets at FVTPL of approximately HK$177.6 million); (ii) fair value loss on investment property of approximately HK$11.7 million (2018: fair value gain on investment property of approximately HK$26.3 million); (iii) fair value gain on derivative financial instruments in relation to convertible bonds of approximately HK$6.2 million (2018: HK$90.8 million); and (iv) gain on disposal of a subsidiary of approximately HK$10.9 million (2018: Nil).

Selling and distribution expenses

Selling and distribution expenses of the Group increased from approximately HK$7.6 million during the year ended 31 December 2018 to approximately HK$7.9 million for the year ended 31 December 2019. The stable level of expenses was mainly due to steady PRC selling and distribution staff costs incurred in facilitating business operations.

Administrative expenses

Administrative expenses of the Group decreased by approximately 18.6% from approximately HK$123.5 million for the year ended 31 December 2018 to approximately HK$100.5 million for the year ended 31 December 2019. The decrease was mainly due to the review of the Group's manpower by streamlining and restructuring staff, which reduced the costs by approximately HK$23.5 million to utilise resources in a more efficient manner.

Finance costs

Finance costs increased from approximately HK$156.1 million for the year ended 31 December 2018 to approximately HK$158.6 million for the year ended 31 December 2019. The increase was mainly due to more interest incurred on convertible bonds as a result of additional interests charged for the renewal of convertible bonds during the year.

Income tax expense

The Group recorded an income tax expense of approximately HK$14.4 million for the year ended 31 December 2019 (2018: HK$27.7 million), which was mainly due to the net effect of (i) the derecognition of deferred tax liabilities as a result of the fair value loss on investment property and fair value losses on financial assets at FVTPL; and (ii) the derecognition of deferred tax assets in relation to allowance for ECLs on trade receivables as it is no longer probable that sufficient taxable profit will be available to allow the deferred tax assets to be utilised.

Liquidity and Financial Position

	2019	2018
	HK$'000	*HK$'000*
Current assets	**433,266**	1,134,065
Current liabilities	**1,063,556**	606,457
Current ratio	**0.41**	1.87

At 31 December 2019, cash and cash equivalents of the Group amounted to approximately HK$14.0 million (2018: HK$17.9 million). As at 31 December 2019, the Group had interest-bearing bank and other borrowings amounted approximately HK$500.8 million (2018: HK$715.5 million) and the Group also has liability component of convertible bonds of approximately HK$437.2 million (2018: HK$345.4 million).

On the basis of the considerations as disclosed in the note 2 of the consolidated financial statements of the Group for the year ended and as of 31 December 2019, the Board is confident that the Group will have sufficient financial resources to meet its debt repayment and finance needs for its operations for the foreseeable future.

Gearing Ratio

	2019	2018
	HK$'000	*HK$'000*
Total interest-bearing bank and other borrowings and liability components of convertible bonds	**938,025**	1,060,973
Total assets	**1,150,016**	2,039,568
Gearing ratio	**81.6%**	52.0%

The increase in the gearing ratio was mainly due to the decrease in total assets as a result of loss incurred for the year.

As at 31 December 2019, the maturity profile of the interest-bearing bank and other borrowings of the Group falling due within one year and from the second year to third year, amounted to approximately HK$484.1 million (2018: HK$360.1 million) and HK$16.7 million (2018: HK$355.5 million), respectively, of which bank and other borrowings of approximately HK$233.6 million (2018: HK$354.2 million) and approximately HK$58.8 million (2018: HK$49.1 million) were denominated in US dollar and Renminbi respectively.

As at 31 December 2019, the maturity profile of the liability components of the Group's issued convertible bonds falling due within one year and from the second year amounted to approximately HK$437.2 million (2018: HK$93.7 million) and nil (2018: HK$251.8 million), respectively.

Capital Structure

The capital of the Company comprises only ordinary shares. As at 31 December 2019, the total number of the ordinary shares of the Company was 6,810,750,454 (with an aggregate nominal value of HK$68,108,000). There is no change in the total number of issued shares during the period under review.

Charges on the Group's Assets

At 31 December 2019, certain of the Group's other borrowings were secured by the Group's trade receivables of approximately HK$600.6 million (2018: HK$665.6 million), investment property of approximately HK$237.7 million (2018: HK$250.5 million) and restricted bank balances of approximately HK$ nil (2018: HK$12.0 million).

Foreign Currency Exposure

The foreign currency exposure of the Group primarily arises from revenue or income generated, cost and expenses incurred and certain bank and other borrowings denominated in currencies other than the functional currency of the Group's operating units. For the Group's operating units that have United States dollar and Renminbi as their functional currencies, their foreign currency transactions and the units' monetary assets and liabilities denominated in foreign currencies that were translated at the functional currency rates of exchange ruling at 31 December 2019 were mainly denominated in Hong Kong dollars. The Group expected that the exposure to exchange rates fluctuation was not significant and therefore had not engaged in any hedging activities.

Contingent Liabilities

At 31 December 2019, the Group provided a corporate guarantee in favour of an independent third party in respect of a loan facility granted to an associate of the Group up to an aggregate amount of approximately HK$205.0 million (2018: HK$205.0 million), of which HK$29.9 million (2018: HK$17.7 million) has been utilised. The financial liabilities in respect of the fair value of this financial guarantee of approximately HK$25.8 million (2018: Nil) has been recognised as at 31 December 2019.

Capital Commitments

As at the end of the reporting period, the Group had outstanding capital commitments amounted to approximately HK$89.4 million (2018: HK$136.2 million).

EMPLOYEES AND EMOLUMENT POLICY

At 31 December 2019, the Group employed a total of 42 (2018: 147) employees. Total costs including the emoluments of the directors of the Company, amounted to approximately HK$29.9 million for the year (2018: HK$53.4 million). The emolument policy of the Group is determined with reference to the performance, qualifications and experience of individual employees (including Directors), as well as the results of the Group and the market conditions. The Group provides discretionary bonus, medical insurance, provident fund, education subsidy and training to its employees.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES OR ASSOCIATED COMPANIES

Save as disclosed in this announcement, the Group had no material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2019. As at 31 December 2019, the Group had no specific plan for major investment or acquisition for major capital assets or other business. However, the Group will continue to identify new opportunities for business development.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirm that the Company has maintained during the year under review the amount of public float as required under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding securities transactions by Directors on terms without deviation from the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). All Directors, after specific enquiries by the Company, confirmed that they had complied with the required standard under the Model Code and the code of conduct throughout the year.

CORPORATE GOVERNANCE

The Company had complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules throughout the year except as described in the following:

(i) code provisions A.6.7 of the code as the Directors Ms. Wang Li and Mr. Zhao Xianming were unable to attend the annual general meeting of the Company held on 31 May 2019 due to their other business engagement;

(ii) Code provision A.2.1 of the Code sets out that the roles of the Chairman and the Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual. The roles of the chairman and CEO of the Company are both assumed by Mr. Qiu Bin (appointed on 12 March 2020), and the Board believes that the roles of both Chairman and CEO vested in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans.

AUDIT COMMITTEE AND REVIEW OF AUDITED ANNUAL RESULTS

The audit committee of the Company (the "Audit Committee") comprises all the four independent non-executive Directors, namely Mr. Zhao Xianming (chairman), Dr. Guan Huanfei , Mr. Wong Yiu Kit, Ernest and Mr. An Dong. The primary duties of the Audit Committee are to supervise the internal control policies, the financial reporting systems and procedures of the Company, to review the consolidated financial statements and reports of the Group, and to review the terms of engagement and scope of audit work of the external auditors. The consolidated financial statements and this annual results announcement of the Group for the year ended 31 December 2019 have been reviewed by the Audit Committee.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group's independent auditor, McMillan Woods (Hong Kong) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2019. The work performed by McMillan Woods (Hong Kong) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently, no assurance has been expressed by McMillan Woods (Hong Kong) CPA Limited in this announcement.

PUBLICATION OF AUDITED ANNUAL RESULTS AND ANNUAL REPORT

This audited annual results announcement is published on the websites of the Company (www.hongdafin.com) and the Stock Exchange (www.hkex.com.hk). The annual report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and available on the websites of the Company and the Stock Exchange on or before 15 May 2020.

By order of the Board
HongDa Financial Holding Limited
Qiu Bin
Chairman and Executive Director

Hong Kong, 12 May 2020

As at the date of this announcement, the board of directors of the Company comprises Mr. Qiu Bin (Chairman and CEO) and Ms. Chen Xiaohang as executive directors; Mr. Cheng Chai Fu as non-executive director; and Mr. Wong Yiu Kit, Ernest, Mr. Zhao Xianming, Dr. Guan Huanfei, and Mr. An Dong as independent non-executive directors.