HNA TECH INV
海航科技投資

HNA Technology Investments Holdings Limited
海航科技投資控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2086)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2019 increased by 20% to HK$165.7 million (2018: HK$137.7 million).
- Gross profit of the Group for the year ended 31 December 2019 increased by 23% to HK$91.4 million (2018: HK$74.4 million).
- The Group recorded a loss for the year of HK$8.3 million (2018: HK$23.5 million) for the year ended 31 December 2019.
- The Board did not recommend payment of the final dividend for the year ended 31 December 2019.

RESULTS

The board of directors (the “Board”) of HNA Technology Investments Holdings Limited (the “Company”) hereby announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2019 together with the comparative figures for the corresponding period in 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	**2019**	2018
			(Note)
		$'000	*$'000*
Revenue	3	**165,727**	137,685
Cost of sales and services		**(74,365)**	(63,315)
Gross profit		**91,362**	74,370
Other income	4	**1,220**	429
Selling and distribution costs		**(15,342)**	(16,109)
Research and development expenses		**(36,956)**	(30,787)
Administrative expenses		**(46,996)**	(51,450)
Loss from operations		**(6,712)**	(23,547)
Finance costs	5(a)	**(322)**	–
Loss before taxation	5	**(7,034)**	(23,547)
Income tax	6	**(1,225)**	93
Loss for the year attributable to the equity shareholders of the Company		**(8,259)**	(23,454)
Loss per share	7		
Basic		**(2.584 cents)**	(7.339 cents)
Diluted		**(2.584 cents)**	(7.339 cents)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.2.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019 (Expressed in Hong Kong dollars)

	2019	2018
		(Note)
	$'000	*$'000*
Loss for the year	**(8,259)**	(23,454)
Other comprehensive income for the year (after tax)		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit obligations	**(595)**	161
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(237)**	(1,604)
Total comprehensive income for the year	**(9,091)**	(24,897)
Attributable to:		
Equity shareholders of the Company	**(9,091)**	(24,897)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019 (Expressed in Hong Kong dollars)

	Note	**2019**	2018
			(Note)
		$'000	*$'000*
Non-current assets			
Property, plant and equipment		**10,400**	5,472
Intangible assets		**30,527**	43,735
Deferred tax assets		**1,940**	2,406
		42,867	51,613
Current assets			
Inventories		**30,760**	36,191
Trade and other receivables	8	**24,811**	39,990
Other financial assets		**316**	874
Current tax recoverable		**1,663**	1,607
Cash and cash equivalents		**45,449**	27,937
		102,999	106,599
Current liabilities			
Trade and other payables	9	**20,724**	28,927
Lease liabilities		**3,045**	–
Current tax payable		**118**	118
		23,887	29,045
Net current assets		**79,112**	77,554
Total assets less current liabilities		**121,979**	129,167
Non-current liabilities			
Defined benefit obligations		**2,026**	1,293
Lease liabilities		**1,170**	–
		3,196	1,293
NET ASSETS		**118,783**	127,874

	2019	2018
		(Note)
	$'000	*$'000*
CAPITAL AND RESERVES		
Share capital	**31,956**	31,956
Reserves	**86,827**	95,918
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY	**118,783**	127,874

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.2.

NOTES

(Expressed in Hong Kong dollars unless otherwise indicated)

1. GENERAL INFORMATION

HNA Technology Investments Holdings Limited (the "Company") was incorporated in the Cayman Islands on 13 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its registered office is located at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business was at Office 4908, 49 Floor, The Center, 99 Queen's Road Central, Hong Kong up to 14 April 2019 and has changed to Units 4108–4110, 41st Floor, Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong effective from 15 April 2019.

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with all applicable 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 applicable disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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 2.2 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 financial statements.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

2.2 CHANGES IN ACCOUNTING POLICIES

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, *Leases*, 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 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease,* HK(SIC) 15, *Operating leases — incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

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

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

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

a. ***New definition of a lease***

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

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

b. ***Lessee accounting and transitional impact***

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

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 6%.

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

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

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019
	$'000
Operating lease commitments at 31 December 2018	9,104
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(2,356)
	6,748
Less: total future interest expenses	(346)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	6,402
Total lease liabilities recognised at 1 January 2019	6,402

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.

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

	Carrying amount at 31 December 2018	Capitalisation of operating lease contracts	Carrying amount at 1 January 2019
	$'000	*$'000*	*$'000*
Line items in the statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	5,472	6,402	11,874
Total non-current assets	**51,613**	**6,402**	**58,015**
Lease liabilities (current)	–	3,783	3,783
Current liabilities	**29,045**	**3,783**	**32,828**
Net current assets	**77,554**	**(3,783)**	**73,771**
Total assets less current liabilities	**129,167**	**2,619**	**131,786**
Lease liabilities (non-current)	–	2,619	2,619
Total non-current liabilities	**1,293**	**2,619**	**3,912**
Net assets	127,874	–	127,874

c. ***Impact on the financial result, segment results and cash flows of the Group***

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. 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 cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the development, sales and distribution of smart card products, software and hardware, provision of smart card related services and provision of financial advisory services.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2019	2018
	$'000	*$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major product or service lines		
– Sale of smart card products and provision of related services	**165,727**	137,685

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in note 3(b)(i) and 3(b)(iii) respectively.

The Group's customer base is diversified. None of the customers (2018: None) individually contributed over 10% of the Group's revenue.

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

– The financial technology and smart living business mainly represents the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services; and

– The financial services and investment business mainly represents the provision of advisory services including financial due diligence and business operation consultancy services.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets, current assets (including interest in a joint venture, deferred tax assets and current tax recoverable) with the exception of cash and cash equivalents which are centrally managed by the Group and other corporate assets. Segment liabilities include trade creditors, lease liabilities, employee retirement benefit liabilities, current tax payable and deferred tax liabilities attributable to the sales activities of the individual segments with the exception of other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses include the Group's share of revenue and expenses arising from the activities of the Group's joint venture.

The measure used for reporting segment profit is "profit/(loss) from operations". To arrive at "profit/(loss) from operations", the Group's profit is further adjusted for items not specifically attributed to individual segments, such as directors' remuneration, interest income, finance costs and other head office and corporate expenses.

In addition to receiving segment information concerning profit/(loss) from operations, management is provided with segment information concerning revenue, depreciation and amortisation and impairment loss and additions to non-current segment assets used by the segments in their operations.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below:

	Financial technology and smart living		Financial services and investment		Total	
	2019	2018	**2019**	2018	**2019**	2018
		(Note)				*(Note)*
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Disaggregated by timing of revenue recognition						
Point in time	**165,599**	137,048	**–**	–	**165,599**	137,048
Over time	**128**	637	**–**	–	**128**	637
Reportable segment revenue	**165,727**	137,685	**–**	–	**165,727**	137,685
Reportable segment profit/(loss) from operations	**14,476**	1,750	**(9,105)**	(16,098)	**5,371**	(14,348)
Depreciation and amortisation for the year	**(20,956)**	(12,515)	**(118)**	(285)	**(21,074)**	(12,800)
Impairment losses of						
– trade and other receivables	**(1,752)**	(1,923)	**(8,000)**	(4,000)	**(9,752)**	(5,923)
– intangible assets	**–**	(1,085)	**–**	–	**–**	(1,085)
Reportable segment assets	**121,795**	142,999	**200**	11,258	**121,995**	154,257
Reportable segment liabilities	**25,560**	27,988	**22,864**	26,218	**48,424**	54,206
Additions to non-current segment assets during the year	**6,721**	10,497	**–**	362	**6,721**	10,859

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.2.

(ii) ***Reconciliations of reportable segment revenue, profit or loss, assets and liabilities***

	2019	2018
		(Note)
	$'000	*$'000*
Revenue		
Reportable segment revenue	**165,727**	137,685
Consolidated revenue	**165,727**	137,685

	2019	2018
		(Note)
	$'000	*$'000*
Profit or loss		
Reportable segment profit/(loss) from operations	**5,371**	(14,348)
Interest income	**252**	237
Finance costs	**(322)**	–
Unallocated head office and corporate expenses	**(12,335)**	(9,436)
Consolidated loss before taxation	**(7,034)**	(23,547)

	2019	2018
		(Note)
	$'000	*$'000*
Assets		
Reportable segment assets	**121,995**	154,257
Elimination of inter-segment receivables	**(21,818)**	(24,164)
	100,177	130,093
Unallocated head office and corporate assets	**45,689**	28,119
Consolidated total assets	**145,866**	158,212

	2019	2018
		(Note)
	$'000	*$'000*
Liabilities		
Reportable segment liabilities	**48,424**	54,206
Elimination of inter-segment payables	**(21,818)**	(24,164)
	26,606	30,042
Unallocated head office and corporate liabilities	**477**	296
Consolidated total liabilities	**27,083**	30,338

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.2.

(iii) Geographic information

The following table sets out information about the geographic location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets and interest in a joint venture ("specified non-current assets"). The geographic location of customers is based on the location at which the services were provided or the goods are delivered. The geographic location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operations to which they are allocated, in the case of intangible assets, and the location of the operations, in the case of interest in a joint venture.

	Revenue from external customers		Specified non-current assets	
	2019	2018	**2019**	2018
				(Note)
	$'000	*$'000*	***$'000***	*$'000*
The People's Republic of China ("PRC"), including Hong Kong and Macau (country of domicile)	**17,641**	23,371	**39,552**	48,192
United States of America ("U.S.")	**35,876**	17,623	**–**	–
Japan	**20,266**	13,170	**–**	–
Turkey	**12,654**	3,802	**–**	–
Republic of Fiji ("Fiji")	**7,755**	8,808	**–**	–
The Russian Federation	**5,749**	4,868	**–**	–
Republic of the Philippines ("Philippines")	**3,646**	3,820	**1,321**	1,015
Other countries	**62,140**	62,223	**54**	–
	148,086	114,314	**1,375**	1,015
	165,727	137,685	**40,927**	49,207

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.2.

4. OTHER INCOME

	2019	2018
	$'000	*$'000*
Government subsidies*	**908**	–
Interest income	**252**	237
Sundry income	**60**	192
	1,220	429

* During the year ended 31 December 2019, the Group successfully applied for research and development subsidy and high and new technology enterprise subsidy from the PRC Government of $904,000. The purpose of the subsidies is to encourage innovation by granting financial assistance to commercial entities whose research and development projects meet certain criteria. No government subsidies were granted to the Group during the year ended 31 December 2018.

5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	2019	2018
		(Note)
	$'000	*$'000*
(a) Finance costs:		
Interest on lease liabilities	**322**	–

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.2.

	2019	2018
	$'000	*$'000*
(b) Staff costs:		
Contributions to defined contribution retirement plans	**1,917**	2,080
Net expenses recognised in respect of a defined benefit retirement plan	**328**	324
Total retirement costs	**2,245**	2,404
Salaries, wages and other benefits	**52,624**	59,122
	54,869	61,526
Less: Amount capitalised into development costs	**(588)**	(5,253)
	54,281	56,273

	2019	2018
	$'000	*$'000*
(c) Other items:		
Amortisation of intangible assets	**13,863**	9,919
Depreciation		
– Property, plant and equipment	**3,118**	2,881
– Right-of-use assets*	**4,094**	–
Provision for impairment losses		
– trade receivables	**9,720**	4,410
– other receivables	**32**	–
– amount due from a joint venture	**–**	1,513
– intangible assets	**–**	1,085
Auditors' remuneration		
– audit services	**1,165**	1,142
– other services	**21**	–
Total minimum lease payment of lease previously classified as operating lease under HKAS 17*	**–**	8,159
Net loss on disposal of property, plant and equipment	**68**	17
Gain on lease modification	**(5)**	–
Net foreign exchange gain	**(664)**	(1,621)
Cost of inventories	**73,226**	62,646

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.2.

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Taxation in the consolidated statement of profit or loss represents:

	2019	2018
	$'000	*$'000*
Current tax – Hong Kong Profits Tax		
Under/(over)-provision in respect of prior years	**1**	(53)
Current tax – Philippines Income Tax		
Provision for the year	**257**	132
Current tax – Other jurisdictions		
Provision for the year	**191**	145
Over-provision in respect of prior years	**(27)**	–
	164	145
Deferred tax		
Origination and reversal of temporary differences	**803**	(317)
Income tax expense/(credit)	**1,225**	(93)

Notes:

(i) The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first $2,000,000 of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision of Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

(ii) The provision for Philippines Income Tax for 2019 is calculated at 30% (2018: 30%) of the estimated taxable income or 2% (2018: 2%) on gross income incurred for the year, whichever is higher, in accordance with the National Internal Revenue Code of the Philippines.

(iii) In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance notes, the statutory income tax rate applicable to the Company's subsidiaries in the PRC is 25%, except for the following companies:

(a) Logyi Limited ("Logyi")

Logyi was granted the "small and micro sized enterprise" status and enjoys the preferential corporate income tax rate of 10% from 2018 onwards.

(b) ACS Technologies (Shenzhen) Limited ("ACS Shenzhen")

ACS Shenzhen was granted the "high and new technology enterprise" status and enjoys the preferential corporate income tax rate of 15% for three years between 2018 and 2020.

(iv) Taxation for other entities is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

7. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of $8,259,000 (2018: $23,454,000) and the weighted average of 319,565,000 ordinary shares (2018: 319,565,000 ordinary shares) in issue during the year.

(b) Diluted loss per share

Diluted loss per share for the year ended 31 December 2019 and 2018 are the same as the basic loss per share as there are no dilutive potential ordinary shares.

8. TRADE AND OTHER RECEIVABLES

	Note	2019 $'000	2018 $'000
Trade receivables, net of loss allowance	(i)	**20,601**	34,725
Prepayments		**1,146**	2,365
Deposits paid		**1,752**	1,939
Other receivables		**854**	522
Amounts due from other fellow subsidiaries, net of loss allowance		**407**	439
Amount due from immediate holding company		**51**	–
		24,811	39,990

Note:

(i) Included in trade receivables is an amount due from a fellow subsidiary with a gross balance (before loss allowance) of $12,000,000 (2018: $14,830,000). The amount is unsecured, interest-free and past due for more than 1 year. As of the date of this announcement, $4,000,000 in total was received from the fellow subsidiary as partial settlement of this amount.

Given the time lapsed since this amount has been overdue, and upon evaluating the uncertainties pertaining to the amount due from the fellow subsidiary, the Group recorded a provision of expected credit loss of $8,000,000 (2018: $4,000,000) during the year based on its estimated probability-weighted outcome and reasonable and supportable information that is available. As at 31 December 2019, the provision of expected credit loss increased to $12,000,000 (2018: $4,000,000).

The amount of the Group's other receivables, deposits and prepayments expected to be recovered or recognised as expense after more than one year is $121,000 (2018: $1,186,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	2019	2018
	$'000	*$'000*
Within 1 month	**12,495**	9,906
1 to 2 months	**4,134**	3,920
2 to 3 months	**2,102**	4,163
3 to 12 months	**1,505**	181
Over 1 year	**365**	16,555
	20,601	34,725

Trade receivables are generally due within 7 days to 3 months from the date of billing. Trade receivables in relation to sales of software and sales under solution business are due according to respective payment terms, which may exceed 3 months. For advisory services entered, invoices are due upon presentation.

9. TRADE AND OTHER PAYABLES

	2019	2018
	$'000	*$'000*
Trade payables	**8,847**	12,541
Accruals	**7,212**	8,832
Receipt in advance from customers	**4,336**	7,269
Amount due to immediate holding company	**329**	285
	20,724	28,927

All of the trade and other payables are expected to be settled within one year.

As of the end of the reporting period, the ageing of trade payables, based on the invoice date, is as follows:

	2019	2018
	$'000	*$'000*
Within 1 month	**4,853**	6,191
1 to 3 months	**3,876**	6,342
3 months to 1 year	**94**	6
Over 1 year	**24**	2
	8,847	12,541

DIVIDEND

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

The declaration, payment and amount of future dividend will be decided by the Board and will depend upon, among other things, the Group's results of operations, capital requirements, cash flows, general financial condition and such other factors as the Board may consider important.

CLOSURE OF REGISTER OF MEMBERS

The Company will publish the information about the date of annual general meeting and the period for closure of register of members for attending the annual general meeting later.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2019, the Group's revenue increased substantially by 20% to HK$165.7 million (2018: HK$137.7 million); gross profit was HK$91.4 million (2018: HK$74.4 million) with a gross profit margin of 55% (2018: 54%). Loss for the year reduced to HK$8.3 million (2018: HK$23.5 million). Basic loss per share for the year was HK2.584 cents (2018: HK7.339 cents).

Revenue

The increase in Group's revenue for the year ended 31 December 2019 compared to the previous year was mainly attributable to the resumption of bulk purchase of identity card readers by the government of a country in Europe in 2019. The government of that country suspended their bulk purchase of identity card readers in 2018. The spending resumed in 2019 and hence the Group has received a substantial amount of orders to provide identity card readers for the project in that country and sales thereby increased. Besides, there is significant expansion of Automatic Fare Collection ("AFC") projects for public transport in the U.S. and European countries.

For the Group's financial services and investment segment, having taken into consideration the current rapid deterioration of the macro-economy, we decided to shrink the financial services and investment business since early 2018 and discontinue this segment by the end of the first quarter in 2020. As a result, the Group did not recognise any revenue, and incurred a loss for this segment in 2019.

Gross Profit Margin

Gross profit margin for the year ended 31 December 2019 maintained in a similar position as compared to 2018. The gross profit margin for the year ended 31 December 2019 was 55% (2018: 54%).

Operating Expenses

Total operation expenses of the Group maintained at a stable level. The total operating expenses increased by only 1% from HK$98.3 million in 2018 to HK$99.3 million in 2019.

Statement of Financial Position

Intangible assets decreased by 30%, from HK$43.7 million at 31 December 2018 to HK$30.5 million at 31 December 2019, mainly due to amortisation during the year.

Trade receivables decreased by 41%, from HK$34.7 million at 31 December 2018 to HK$20.6 million at 31 December 2019. It is largely attributable to impairment and settlement of trade receivables during the year. The impairment loss on trade receivables for the year ended 31 December 2019 amounted to HK$9.7 million (2018: HK$4.4 million), which is mainly due to impairment of more long outstanding debts in 2019. The remaining decrease in trade receivables is due to prompt settlement received from customers during the year.

Cash and cash equivalents increased by 63%, from HK$27.9 million at 31 December 2018 to HK$45.4 million at 31 December 2019, which was mainly due to more cash generated from operations and timely collection of trade debtors during the year.

DIVIDEND POLICY

The Company has adopted a dividend policy on 19 December 2018. According to the dividend policy, in considering any dividend payout, the Board shall take into account, inter-alia, the following factors:

- the Group's actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- the Group's expected working capital requirements and future expansion plans;

- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

- any other factors that the Board deem appropriate.

Declaration, recommendation and/or payment of dividends of the Company shall be determined at the absolute discretion of the Board and would be in the best interests of the Group and the shareholders and in compliance with all applicable laws and regulations. The Board endeavors to maintain a balance between meeting the shareholders' expectations and prudent capital management with a sustainable dividend policy. The Board will continually review the dividend policy and reserves the right in its absolute discretion to update, amend, modify and/or cancel the dividend policy at any time.

BUSINESS REVIEW

In 2019, it is undisputable that unfavorable macro-economic environment and the tension of the trade war between China and U.S. gave us a turbulent business condition. However, with a substantial improvement in revenue in 2019, it is evident that the Group was leveraging the competitive edge well under volatile environment. Therefore, we are confident to cope with the imminent economic challenges ahead.

Financial Technology and Smart Living

The Group's financial technology and smart living segment mainly included smart card and related products business. This segment recorded a revenue of HK$165.7 million during the year of 2019, an increase of 20% as comparing to HK$137.7 million of 2018. The improvement was mainly attributable to the result of resumption of bulk purchase of identity card readers by the government of a country in Europe, which had been suspended in 2018.

In the meantime, the Group made significant progress with the AFC business in the U.S. and European countries.

Following the AFC project for public transport in Fiji launched in 2017, the project requested 700,000 cards in the first half of 2019. In addition, the AFC project in Fiji requested the Group to provide 10 units of ticket vending machines (TVM) to better serve the whole population of Fiji.

Likewise, in Malaysia, the latest bus validator ACR330 has been well qualified. In 2018, 600 units of ACR330 were shipped and the local bus operator installed the devices onto 600 buses in 2019.

AFC business was improved in the U.S.. The bus operator was deploying new AFC transportation projects in Los Angeles, New York and San Francisco, drawing up the demand of business validator.

All of these projects have a favorable impact on the Group's sales performance during the year of 2019.

Event and awards

The Group has actively taken chance to join industry activities to promote our business.

In May 2019, Advanced Card Systems Limited ("ACS"), a wholly owned subsidiary of the Group, exhibited at Japan IT Week Spring 2019 at Tokyo Big Sight to showcase its latest product offerings. Addressing the growing popularity of and demand for contactless applications, ACS demonstrated the determination to deliver world-class services to customers and partners.

Moreover, ACS also exhibited in Securing Federal Identity 2019 in June 2019 at Hilton Crystal City at National Airport of Arlington, U.S. Securing Federal Identity 2019 featured federal government identity and security policy and issues and technology developments for today's federal agencies and federal market security leaders. The showcase allowed government attendees to visit and learn more about innovative identity products and services enabling secure federal identities today and in the future.

In December 2019, ACS won the Excellent Cooperation Achievement Award at the third Yang Cheng Tong Developers Conference held in Guangzhou, China. As an important partner of Yang Cheng Tong, ACS was invited once again to attend the conference and ACS was awarded the Excellent Cooperation Achievement Award that represents the recognition of its product value by partners and market. ACS's commitment to develop key technologies and innovative applications for transport e-payment systems in the field of mobile internet was recognised among industry players. On top of that, the businesses of a series of innovative products and services including Bluetooth self-service reloading terminal, on-line reloading terminal, mini-POS product and QR code payment were launched and promoted by the Group worldwide.

Financial Services and Investment

A team was built to develop the advisory and investment businesses since the second half of 2017 and completed two transactions in 2017. However, having evaluated the macro environment and internal competence as well as risk-reward balance, the management decided to scale back its operation in financial services and investment business since early 2018 and discontinue this segment by the end of the first quarter in 2020. Hence there is no revenue generated from this segment in 2019 as well as 2018.

PROSPECTS

Financial Technology and Smart Living

Cutthroat competition along with business opportunities are always on the horizon. In 2020, the Group will continue to focus on our core strength and strive to enhance existing products. Trade conflict between China and the U.S. together with the outbreak of novel coronavirus (COVID-19) set the tone for the beginning of 2020, overall downturn economic pressure is emerging to the surface. However, with our innovative technology and excellence products and services, we are confident to cope with the coming economic challenges ahead.

Financial Services and Investment

Having evaluated the macro environment and internal competence as well as risk-reward balance, the management decided to scale back its operation in financial services and investment business since early 2018 and discontinue this segment by the end of the first quarter in 2020.

RISK FACTORS

The Group's results of operations, financial condition and growth prospects may be affected by risks and uncertainties directly or indirectly pertaining to the Group's businesses. The risk factors set out below are those that could result in the Group's results of operations, financial condition and growth prospects differing materially from expected or historical results. Such factors are by no means exhaustive or comprehensive and there might be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Operation Risk

Reliance on a limited number of large customers

Sales to the top five customers accounted for 28% of the Group's revenue for the year ended 31 December 2019 (2018: 23%). The risk of relying on limited number of customers is not high, albeit a slight increase compared with 2018. We keep maintaining a pool of customers to minimise the risks of over-reliance on few key customers. However, there is no assurance that the demand for the products of the Group from these customers can be maintained in the future. In the event that the demand from them decreases significantly and the Group is unable to find replacement customers on terms acceptable to the Group, performance of the Group may be adversely affected.

Reliance on certain independent manufacturers for manufacturing smart card and smart card reader

The Group does not own any production facilities. We subcontract substantially all of our production activities to external manufacturers in China. During the year ended 31 December 2019, the Group engaged three (2018: three) manufacturers for manufacturing smart card, all of them were engaged by the Group for at least over 5 years. The Group maintained one (2018: one) manufacturer for manufacturing smart card reader. The Group has been closely monitoring the production situation of this manufacturer for manufacturing smart card reader to ensure the Group's ability to meet product delivery schedule. In addition, the Group will start to look for another new manufacturer for manufacturing smart card reader.

However, financial or other difficulties faced by these manufacturers or any change in the Group's relationship with these manufacturers could affect the Group's ability to meet product delivery schedule and may in turn adversely affect the Group's business operations.

The serious impact of the outbreak of novel coronavirus (COVID-19) has affected the schedule of delivery since our major component suppliers and contracted manufacturers are situated in the PRC. As a result, sales performance in 2020 will be affected.

Reliance on ability to attract and retain skilled engineers

The performance of the Group depends, to a significant extent, on the continued services and performance of its research, development and deployment teams. As at 31 December 2019, 49% (2018: 49%) of full-time employees of the Group are engineers for research, development and deployment and 41% (2018: 38%) of them served the Group for over 5 years. Competition for employees with the requisite skills, qualifications and experience in the industry is intense. If the Group is unable to attract, retain and motivate skilled engineers in the future, the operations of the Group may be adversely affected.

Business Risk

Rapid changes in technology

The Group operates in a market which is characterised by rapid changes in technology, industry standards, customer preferences and frequent introductions and enhancements of products and services. Accordingly, the performance of the Group will depend on overall market demand on smart card technology and related products and its ability to improve the functions and reliability of its products and services and adapt to new industry standards and customer preferences. In the event of the Group failing to adapt successfully to such changes, the performance and growth prospects of the Group may be adversely affected.

Substantial capital expenditure on new products and services

The introduction of new products and services in response to rapid changes in technology, industry standards and customer preferences require substantial capital expenditure. During the year ended 31 December 2019, the Group recorded additions of HK$0.7 million (2018: HK$7.7 million) on development costs of new products and services. The reason of decrease is that developing new products takes time and uncertainty, so in current year, our strategy is to focus more on existing products enhancement thus less costs are spent on developing new products. The substantial capital expenditure may have an adverse impact on the financial resources of the Group. In the event the new products and services do not achieve market acceptance or there is substantial delay in the process, the performance and growth prospects of the Group may be adversely affected.

Financial Risk

The Group is exposed to a variety of key financial risks including credit risk, which is mainly derived from offering credit terms to customers, but have the risk of cash shortage due to the time delay from payment to suppliers to collecting cash from customers. Also, there is a risk of default from customers and the trade receivables become non-recoverable.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2019, the Group's cash and cash equivalents amounted to HK$45.4 million (31 December 2018: HK$27.9 million). The Group's net assets as at 31 December 2019 was HK$118.8 million (31 December 2018: HK$127.9 million).

The Group's equity capital and the cash generated from operating activities has been applied to fund its working capital and other operational needs. The Group recorded net cash inflow in operating activities of HK$25.5 million (2018: HK$9.1 million) during the year, the amount increased as a result of improved financial performance of the Group and more cash receipts from customers were collected during the year. The Group recorded net cash outflow in investing activities of HK$3.8 million (2018: HK$10.7 million) during the year, the amount decreased as a result of less capital expenditures spent on development projects as more focus was spent on enhancing existing projects during the year. The Group recorded net cash outflow in financing activities of HK$4.3 million (2018: nil) during the year, which was due to the capital and interest elements of lease rentals paid as a result of adoption of the new accounting standard HKFRS 16, *Leases* during the year.

DISPOSALS AND ACQUISITIONS

During the year ended 31 December 2019, the Group did not have any material disposals or investments of subsidiaries and affiliated companies.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

As at 31 December 2019, the Group did not have any capital commitment related to acquisition of property, plant and equipment, nor any plan authorised by the Board for other substantial investment or additions of capital assets.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in Hong Kong dollars, Philippine Pesos, United States dollars and Renminbi. As Hong Kong dollars is pegged to United States dollars, exchange risk arising from United States dollars does not have significant financial impact to the Group. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by entering into currency hedge arrangement if necessary. During the year ended 31 December 2019, no forward foreign exchange or hedging contracts had been entered by the Group (2018: nil).

PLEDGE OF ASSETS

As at 31 December 2019, the Group did not pledge any of its material assets (2018: nil).

CONTINGENT LIABILITIES

As at 31 December 2019, the Company had no significant contingent liabilities (2018: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 178 (2018: 182) full time employees. Staff costs recognised in profit or loss for the year amounted to HK$54.3 million (2018: HK$56.3 million). Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience, and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

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 shares.

CORPORATE GOVERNANCE CODE

During the year, the Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Saved as disclosed below, the directors are of the opinion that the Company has compiled with the code provisions set out in the CG Code during the year ended 31 December 2019.

Code provision E.1.2 provides that the chairman of the board should attend the annual general meeting. Mr. Cui Yijun, the chairman of the Board, was unable to attend the annual general meeting of the Company held on 30 May 2019 (the "AGM") due to his other engagement. Mr. Zheng Xuedong, executive director of the Company who took the chair of the AGM, together with other members of the Board who attended the AGM, were of sufficient calibre for answering questions at the AGM and had answered questions at the AGM competently.

On 31 December 2018, Ms. Kaung Cheng Xi Dawn resigned as an independent non-executive director, a member and the chairman of the remuneration committee of the Company and a member of each of the audit committee and the nomination committee of the Company.

Following the resignation of Ms. Kaung Cheng Xi Dawn, the Company was not in compliance with Rules 3.10(1) and 3.10A of the Listing Rules with regard to the composition of the Board and with Rule 3.21 of the Listing Rules with regard to the composition of the audit committee from 31 December 2018 to 14 March 2019. Following the appointment of Ms. O Wai on 15 March 2019 as an independent non-executive director and a member of the audit committee of the Company, the Company has complied with Rules 3.10(1) and 3.10A of the Listing Rules in relation to the composition of the Board and Rule 3.21 of the Listing Rules with regard to the composition of the audit committee of the Company.

Details of the Company's corporate governance principles and processes will be available in the 2019 annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than 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 Listing Rules. Having made specific enquiry of all directors, all directors have complied with the required standard as set out in the Model Code and its code of conduct regarding directors' securities transactions by the directors adopted by the Company throughout the year ended 31 December 2019.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely Mr. Guo Dan, Dr. Lin Tat Pang and Ms. O Wai.

The audit committee has reviewed the annual results of the Group for the year ended 31 December 2019 with the management and recommended its adoption by the Board. The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, 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 the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other 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 the auditor.

ANNUAL REPORT AND FURTHER INFORMATION

This announcement can be found on the Company's website (www.hnatechinv.com) and the Stock Exchange's website (www.hkexnews.hk). The 2019 annual report will be despatched to all shareholders and made available on the respective websites of the Company and the Stock Exchange in due course.

By order of the Board of
HNA Technology Investments Holdings Limited
Jiang Hao
Chairman

Hong Kong, 24 March 2020

As at the date of this announcement, the Board comprises five executive directors, namely Mr. Jiang Hao, Mr. Xu Jie, Mr. Wang Jing, Mr. Peng Zhi and Mr. Wong Chi Ho, one non-executive director, namely Mr. Kwan Kin Man Keith and three independent non-executive directors, namely Mr. Guo Dan, Dr. Lin Tat Pang and Ms. O Wai.