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**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)**

**UNAUDITED ANNUAL RESULTS**  
**ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019**

**FINANCIAL HIGHLIGHTS**

- The Group recorded a turnover 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\$628.3 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 unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019 ("Unaudited Annual Results") together with the comparative audited figures for the year ended 31 December 2018.

For the reasons explained in the section headed "Review of Unaudited Annual Results", the Unaudited Annual Results set forth in this announcement have not yet been agreed with the Company's auditors and the Unaudited Annual Results have been reviewed by the Company's audit committee ("Audit Committee").

The following is the Unaudited Annual Results of our Group as of and for the year ended 31 December 2019, together with a management's discussion and analysis of our Group's financial position and results of operations. The Unaudited Annual Results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and have not been audited. Investors should bear in mind that the Unaudited Annual Results in this announcement may be subject to change.

## UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2018 <b>HK\$'000</b> <b>(Audited)</b>
<b>REVENUE</b>	5	<b>654,318</b>	1,097,593
Cost of sales		<u><b>(619,511)</b></u>	<u>(1,031,644)</u>
Gross profit		<b>34,807</b>	65,949
Other income, gains and losses, net	5	<b>(59,820)</b>	334,068
Allowances for expected credit losses (“ECLs”) on trade receivables, loan and other receivables, net		<b>(382,779)</b>	(198,039)
Impairment of amount due from a joint venture		–	(15,003)
Selling and distribution expenses		<b>(7,860)</b>	(7,641)
General and administrative expenses		<b>(99,182)</b>	(123,478)
Other expenses		<b>(6,076)</b>	(8,798)
Finance costs	6	<b>(157,787)</b>	(156,100)
Share of results of:			
Joint ventures		<b>3,592</b>	4,183
An associate		<u><b>(4,480)</b></u>	<u>(107,938)</u>
<b>LOSS BEFORE TAX</b>	7	<u><b>(679,585)</b></u>	<u>(212,797)</u>
Income tax credit/(expense)	8	<u><b>21,765</b></u>	<u>(27,651)</u>
<b>LOSS FOR THE YEAR</b>		<u><u><b>(657,820)</b></u></u>	<u><u>(240,448)</u></u>
<b>LOSS FOR THE YEAR ATTRIBUTABLE TO:</b>			
Owners of the Company		<b>(628,348)</b>	(226,976)
Non-controlling interests		<u><b>(29,472)</b></u>	<u>(13,472)</u>
		<u><u><b>(657,820)</b></u></u>	<u><u>(240,448)</u></u>
<b>LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	9		
Basic		<u><b>HK(9.23) cent</b></u>	<u>HK(3.37) cent</u>
Diluted		<u><b>HK(9.23) cent</b></u>	<u>HK(3.37) cent</u>

## UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Audited)
<b>LOSS FOR THE YEAR</b>	<u>(657,820)</u>	<u>(240,448)</u>
<b>OTHER COMPREHENSIVE INCOME</b>		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(841)	1,752
Share of other comprehensive income of an associate	<u>–</u>	<u>(1,814)</u>
Other comprehensive income for the year	<u>(841)</u>	<u>(62)</u>
<b>LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u><u>(658,661)</u></u>	<u><u>(240,510)</u></u>
<b>LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:</b>		
Owners of the Company	(629,626)	(226,982)
Non-controlling interests	<u>(29,035)</u>	<u>(13,528)</u>
	<u><u>(658,661)</u></u>	<u><u>(240,510)</u></u>

## UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2019*

	<i>Notes</i>	<b>2019</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2018 <i>HK\$'000</i> <b>(Audited)</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>17,828</b>	21,784
Investment property		<b>237,651</b>	250,549
Right of use assets		<b>10,815</b>	–
Intangible assets		<b>36,220</b>	38,970
Interests in joint ventures		<b>1,091</b>	1,642
Interest in an associate		–	2,985
Deferred tax assets		<b>33,802</b>	33,802
Long term prepayment and deposits		–	12,071
Financial assets at fair value through profit or loss ("FVTPL")	<i>10</i>	<b>452,062</b>	543,700
<b>Total non-current assets</b>		<b>789,469</b>	905,503
<b>CURRENT ASSETS</b>			
Inventories		<b>5,898</b>	6,722
Trade receivables	<i>11</i>	<b>348,405</b>	746,139
Loan receivable	<i>12</i>	–	–
Prepayments, deposits and other receivables		<b>39,011</b>	351,216
Tax recoverable		<b>444</b>	103
Restricted cash		–	11,973
Cash and cash equivalents		<b>14,990</b>	17,912
<b>Total current assets</b>		<b>408,748</b>	1,134,065

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(CONTINUED)**

At 31 December 2019

	<i>Notes</i>	<b>2019</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2018 <i>HK\$'000</i> <b>(Audited)</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	13	244	2,401
Other payables and accruals		113,685	143,935
Amounts due to joint ventures		–	2,462
Lease liabilities		4,245	–
Interest-bearing bank and other borrowings		379,112	360,077
Derivative financial instruments	14	–	220
Convertible bonds	14	437,190	93,675
Provision for obligation on a joint venture		–	3,087
Provision for reinstatement costs		–	600
		<hr/>	<hr/>
Total current liabilities		934,476	606,457
		<hr/>	<hr/>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<b>(525,728)</b>	527,608
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>263,741</b>	1,433,111
		<hr/>	<hr/>
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities		4,962	–
Other payables		621	4,281
Interest-bearing other borrowings		123,286	355,451
Derivative financial instruments	14	–	6,400
Convertible bonds	14	–	251,770
Deferred tax liabilities		46,257	68,398
		<hr/>	<hr/>
Total non-current liabilities		175,126	686,300
		<hr/>	<hr/>
<b>NET ASSETS</b>		<b>88,615</b>	746,811
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	15	68,108	68,108
Reserves		79,717	709,032
		<hr/>	<hr/>
		147,825	777,140
Non-controlling interests		<b>(59,210)</b>	<b>(30,329)</b>
		<hr/> <hr/>	<hr/> <hr/>
Total equity		<b>88,615</b>	746,811
		<hr/> <hr/>	<hr/> <hr/>

## NOTES

### 1. CORPORATE AND GROUP INFORMATION

HongDa Financial Holding Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The ultimate controlling parties are Ms. Deng Shufen and Ms. Liu Jiangyuan, who aggregately hold 51.38% of issued share capital of the Company in the name of Sino Merchant Car Rental Limited. The Company’s principal place of business in Hong Kong is located at Suite 2603, 26th Floor, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

During the year, the Group was primarily involved in (i) provision of car rental and other services; (ii) materials trading; and (iii) financing services and investments.

### 2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated 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 “Listing Rules”). They have been prepared under the historical cost convention, except for investment property and certain types of financial assets at FVTPL as described in note 10. These consolidated financial statements are presented in HK\$, which is also the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

#### **The Group’s ability to continue as a going concern**

The Group continues to adopt the going concern basis in preparing its consolidated financial statements. For the year ended 31 December 2019, the Group incurred a loss of approximately HK\$657,820,000, and as at 31 December 2019, the Group had net current liabilities of approximately HK\$525,728,000. The Group’s cash and cash equivalent amounted to approximately HK\$14,990,000, in contrast to its interest-bearing bank and other borrowing and convertible bonds of approximately HK\$502,398,000 and HK\$437,190,000 respectively. The Group interest-bearing bank and other borrowings and convertible bonds of approximately HK\$379,112,000 and HK\$437,190,000 respectively are repayable within the next twelve months.

In order to improve the Group’s financial position, the directors of the Company have been implementing various measures as follows:

- i. 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 entered into between the Company and the lender to extend the repayment terms to 11 March 2021;
- ii. the controlling shareholder 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 this announcement;
- iii. implementing an active cost-saving measures to control administrative costs through various ways to improve operating cash flows at a level sufficient to finance the working capital requirements of the Group; and
- iv. reviewing its investments and actively considering to realise certain of investment properties and/or financial assets at fair value through profit or loss in order to enhance the cash flow position of the Group whenever it is necessary.

On the basis of the above considerations, the directors of the Company are of the opinion that, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from the date of issuance of these consolidated financial statements and accordingly, these consolidated financial statements have been prepared on a going concern basis.

### 3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

#### **New and amendments to HKFRSs that are mandatorily effective for the current year**

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 16	<i>Leases</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to HKAS 19	<i>Employee Benefits</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2015–2017 Cycle</i>

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performances for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### **HKFRS 16 *Leases***

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease expenses were recognised in the consolidated statement of comprehensive income over the lease period on a straight line basis.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The weighted average Group's incremental borrowing rates applied to the lease liabilities on 1 January 2019 were ranging from approximately 10.2% to 14.0%.

Right-of-use assets are measured at their carrying amount as if HKFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

**Consolidated statement of financial position**

	<i>HK\$'000</i> (Unaudited)
Operating lease commitments disclosed as at 31 December 2018	34,356
Discounted using the lessees' incremental borrowing rates at the date of initial application	(1,397)
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(26,740)
Add: Others	<u>1,399</u>
<b>Lease liabilities recognised as at 1 January 2019</b>	<u><u>7,618</u></u>
Of which are:	
Current lease liabilities	3,351
Non-current lease liabilities	<u>4,267</u>
	<u><u>7,618</u></u>

The associated right-of-use assets for properties and motor vehicles were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

As at 1 January 2019, the recognised right-of-use assets relate to the following types of assets:

	<i>HK\$'000</i> (Unaudited)
Properties	3,264
Motor vehicles	<u>4,354</u>
	<u><u>7,618</u></u>



Under the transition methods chosen, the Group has recognised cumulative effect of the initial application of HKFRS 16 as an adjustment to the opening balance of equity at 1 January 2019. Comparative information is not restated. Line items that were not affected by the changes have not been included in the following table. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The change in accounting policy affected the following items in the consolidated statement of financial position as at 1 January 2019:

	At 31 December 2018 <i>HK\$'000</i> (Audited)	Impact of initial application of HKFRS 16 <i>HK\$'000</i>	At <b>1 January 2019</b> <i>HK\$'000</i> (Unaudited)
Right of-use assets	–	7,618	<b>7,618</b>
Total non-current assets	905,503	7,618	<b>913,121</b>
Lease liabilities	–	(3,351)	<b>(3,351)</b>
Total current liabilities	(606,457)	(3,351)	<b>(609,808)</b>
Net current assets	527,608	(3,351)	<b>524,257</b>
Total assets less current liabilities	1,433,111	(3,351)	<b>1,429,760</b>
Lease liabilities	–	(4,267)	<b>(4,267)</b>
Total non-current liabilities	(686,300)	(4,267)	<b>(690,567)</b>

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous; and
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*.

#### *Summary of new accounting policy*

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policy upon adoption of HKFRS 16 from 1 January 2019:

The Group leases properties and motor vehicles for its operations. Rental contracts are typically made for fixed period of 3 to 38 months. Lease terms are negotiated on an individual basis and do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset under property, plant and equipment and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recorded in property, plant and equipment, and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The depreciation is recorded in the consolidated statements of comprehensive income.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate. The lease liabilities are recognised separately in current and non-current liabilities in the consolidated statement of financial position.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, lease payment made at or before the commencement date and any initial direct cost.

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	<i>Insurance Contracts</i> <sup>1</sup>
Amendments to HKFRS 3	<i>Definition of a Business</i> <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> <sup>4</sup>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> <sup>4</sup>

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

<sup>2</sup> Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

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

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

Except for the amendments to HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

#### **Amendments to HKAS 1 and HKAS 8 Definition of Material**

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentations and disclosures in the consolidated financial statements.

#### 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) Car rental segment — primarily engages in the provision of car rental services;
- (b) Materials trading segment — primarily engages in the trading of materials;
- (c) Financing services and investments segment — primarily engages in money lending business through the provision of loans and financial investment holding; and
- (d) 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 profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's loss before tax except that unallocated interest income, unallocated other income and gains, unallocated depreciation, unallocated finance costs as well as corporate and other unallocated expenses and share of losses of joint ventures are excluded from such measurement.

Segment assets exclude certain financial assets at fair value through profit or loss, tax recoverable, deferred tax assets, 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 certain interest-bearing other borrowings, derivative financial instruments, convertible bonds, certain tax payable and 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
(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)
<b>Segment revenue:</b>										
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	<u>20,252</u>	<u>24,538</u>	<u>632,540</u>	<u>1,064,893</u>	<u>-</u>	<u>-</u>	<u>1,526</u>	<u>8,162</u>	<u>654,318</u>	<u>1,097,593</u>
<b>Segment results</b>	(12,302)	(1,248)	(325,122)	(104,394)	(13,228)	69,187	(80,561)	(24,128)	(431,213)	(60,583)
<b>Reconciliation:</b>										
Unallocated interest income									29,985	3,190
Unallocated other income and gains									58,442	90,793
Unallocated depreciation									(2,326)	(3,146)
Corporate and other unallocated expenses									(182,754)	(93,390)
Unallocated finance costs									(155,311)	(153,844)
Share of losses of joint ventures									3,592	4,183
Loss before tax									<u>(679,585)</u>	<u>(212,797)</u>
<b>Segment assets</b>	66,525	64,484	359,350	786,641	83,343	637,294	260,744	325,283	769,962	1,813,702
<b>Reconciliation:</b>										
Corporate and other unallocated assets									428,255	225,866
Total assets									<u>1,198,217</u>	<u>2,039,568</u>
<b>Segment liabilities</b>	44,967	31,268	119,502	-	-	-	45,160	88,222	209,629	119,490
<b>Reconciliation:</b>										
Corporate and other unallocated liabilities									899,973	1,173,267
Total liabilities									<u>1,109,602</u>	<u>1,292,757</u>
<b>Other segment information:</b>										
Finance costs	2,383	2,223	1	-	-	-	92	33	2,476	2,256
Depreciation	6,850	5,728	-	-	-	-	347	75	7,197	5,803
Impairment of property, plant and equipment	2,496	1,119	-	-	-	-	-	-	2,496	1,119
Impairment of intangible assets	2,042	924	-	-	-	-	-	-	2,042	924
Capital expenditure*	<u>14,541</u>	<u>8,484</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,541</u>	<u>8,484</u>

\* Capital expenditure consists of additions to property, plant and equipment.

## Geographical information

The following table presents derived revenue from external customers for the years ended 31 December 2019 and 2018, and certain non-current assets information as at 31 December 2019 and 2018, by geographical areas.

	The United States		Mainland China		Hong Kong		Others		Total	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Audited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Audited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Audited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Audited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Audited)
Revenue from external customers	-	-	23,034	27,834	631,284	1,069,759	-	-	654,318	1,097,593
Non-current assets	274,612	300,017	297,139	295,875	217,718	309,611	-	-	789,469	905,503
No-current assets (excluding financial instruments)	238,013	263,218	64,699	60,837	34,695	37,748	-	-	337,407	361,803

The Group's revenue information by geographical areas is based on the locations where the customers are domiciled/located or the destinations where the goods are delivered. The Group's non-current assets information by geographical areas is based on the locations of the assets.

## Information about major customers

Revenues of approximately HK\$278.9 million (2018: HK\$441.7 million), HK\$190.4 million (2018: HK\$184.9 million), HK\$94.4 million (2018: HK\$343.2 million) and HK\$66.2 million (2018: HK\$95.1 million) were derived from materials trading segment with four (2018: three) customers, which individually amounted to 10 per cent or more of the Group's total revenue for the years ended 31 December 2019 and 2018.

## 5. REVENUE, OTHER INCOME, GAINS AND LOSSES, NET

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of car rental and other services rendered; and loan interests generated from financing services rendered during the year.

An analysis of revenue, other income, gains and losses, net, is as follows:

	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Audited)
<b>Revenue</b>		
Sales of goods recognised at a point of time	632,540	1,064,893
Car rental income	20,252	24,538
Loan interest income	–	43
Service income recognised at a point of time	1,526	8,119
	<u>654,318</u>	<u>1,097,593</u>
<b>Other income</b>		
Bank interest income	106	45
Other interest income	29,880	26,124
Dividend income from unlisted equity investment	–	9,708
Rental and management fee income	500	553
Others	4,569	835
	<u>35,055</u>	<u>37,265</u>
<b>Gains and losses, net</b>		
Gain on disposal of items of property, plant and equipment, net	1,140	2,109
Gain on disposal of equity shares	881	–
Fair value (loss)/gain on investment property	(12,898)	26,330
Fair value (losses)/gains on financial assets at FVTPL	(91,638)	177,571
Fair value gain on derivative financial instruments in relation to convertible bonds	7,640	90,793
	<u>(94,875)</u>	<u>296,803</u>
	<u>(59,820)</u>	<u>334,068</u>

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Audited)
Interest on bank and other borrowings	51,205	64,076
Interest on convertible bonds	105,765	91,554
Interest on lease liabilities	685	209
Bank charges	132	261
	<u>157,787</u>	<u>156,100</u>

## 7. LOSS BEFORE TAX

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

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2018 <i>HK\$'000</i> (Audited)
Cost of inventories sold and services rendered		<b>619,511</b>	1,031,644
Depreciation of property, plant and equipment <sup>^</sup>		<b>9,523</b>	8,949
Depreciation of right of use assets		<b>765</b>	–
Minimum lease payments under operating leases <sup>^</sup>		<b>29,333</b>	25,902
Auditor's remuneration			
— audit services		<b>1,834</b>	1,900
— non-audit services		–	200
Employee benefit expenses (including directors' emoluments):			
Wages, salaries, allowances, bonuses and benefits in kind		<b>27,819</b>	47,264
Pension scheme contributions (defined contribution schemes) <sup>##</sup>		<b>2,103</b>	6,157
		<b>29,922</b>	53,421
Foreign exchange differences, net		<b>116</b>	36
Research expenses		<b>2,501</b>	9,486
Fair value gain on derivative financial instruments in relation to convertible bonds	<i>14</i>	<b>(7,640)</b>	(90,793)
Loss on modification of a convertible bond	<i>14</i>	–	5,700
Fair value loss/(gain) on financial assets at FVTPL	<i>10</i>	<b>91,638</b>	(177,571)
Fair value loss/(gain) on investment property		<b>12,898</b>	(26,330)
Allowance for ECLs on trade receivables	<i>11</i>	<b>383,709</b>	181,396
Reversal of allowance for ECLs on trade receivables		<b>(85,970)</b>	–
Allowance for ECLs on loan receivable	<i>12</i>	–	15,629
Allowance for ECLs on other receivables		<b>85,040</b>	1,014
Impairment of property, plant and equipment*		<b>2,496</b>	1,119
Impairment of intangible assets*		<b>2,042</b>	924
Impairment of amount due from a joint venture*		–	15,003
Write-off of inventories*		<b>35</b>	16
Write-off of property, plant and equipment*		<b>661</b>	500
Write-off of other receivables*		<b>1,481</b>	–
Write-off of amount due from fellow subsidiaries*		<b>3,460</b>	–
(Gain)/loss on disposal of subsidiaries*		<b>(6,734)</b>	1,001
Gain on disposal of items of property, plant and equipment, net		<b>(1,084)</b>	(2,109)

<sup>^</sup> The depreciation in respect of certain of the Group's motor vehicles of approximately HK\$6,850,000 (2018: HK\$5,623,000) and the minimum lease payments under operating leases in respect of certain of the Group's motor vehicles of approximately HK\$8,548,000 (2018: HK\$10,751,000) are included in "Cost of sales" of the face of the consolidated statement of profit or loss.

\* During the year ended 31 December 2019, impairment of intangible assets, impairment of property, plant and equipment, write-off of inventories, write-off of property, plant and equipment, write-off of other receivables, write-off of amount due from fellow subsidiaries, and gain on disposal of subsidiaries (2018: impairment of property, plant and equipment, impairment of intangible assets, impairment of amount due from a joint venture, loss on disposal of subsidiaries and write-off of inventories) were included in "Other expenses" on the face of the consolidated statement of profit or loss.

<sup>##</sup> As at 31 December 2019 and 2018, the Group had no material forfeited contributions available to reduce its contributions to its pension schemes in future years.

## 8. INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	<b>2019</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2018 <i>HK\$'000</i> (Audited)
Current — Hong Kong		
Overprovision in prior years	–	(27)
Current — Elsewhere		
Withholding tax	–	970
Overprovision in prior years	<b>(20)</b>	(79)
Deferred tax (credit)/expense	<b>(21,745)</b>	26,787
	<hr/>	<hr/>
Total tax (credit)/expense for the year	<b><u>(21,765)</u></b>	<b><u>27,651</u></b>

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax under these jurisdictions during the year (2018: Nil).

Under the Enterprise Income Tax Law (the “EIT Law”) of the People’s Republic of China (the “PRC”) and the Implementation Regulation of the EIT Law, the subsidiary in the PRC is subject to the tax rate of 25% (2018: 25%) on the estimated assessable profits during the year.

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 rate of 10%.

## 9. 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 ordinary equity holders of the Company of approximately HK\$628,348,000 (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:

	<b>2019</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2018 <i>HK\$'000</i> (Audited)
<b>Loss</b>		
Loss for the year attributable to owners of the Company used in the basis and diluted loss per share calculation	<u><b>(628,348)</b></u>	<u>(226,976)</u>
	<b>Number of shares</b>	
	<b>2019</b> <b>(Unaudited)</b>	2018 (Audited)
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation	<u><b>6,810,750,454</b></u>	<u>6,741,569,796</u>

#### 10. FINANCIAL ASSETS AT FVTPL

	<b>2019</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2018 <i>HK\$'000</i> (Audited)
<b>Non-current financial assets at FVTPL</b>		
An acquired convertible bond ( <i>Note (i)</i> )	<b>39,659</b>	39,659
An unlisted fund investment ( <i>Note (ii)</i> )	<b>10,941</b>	20,569
Unlisted equity investments ( <i>Note (iii)</i> )	<u><b>401,462</b></u>	<u>483,472</u>
	<u><b>452,062</b></u>	<u>543,700</u>

*Notes:*

##### (i) 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 6 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.

As at 31 December 2017, the Acquired Convertible Bond contains a debt component which was recognised as loans and receivables and was measured at fair value on initial recognition and subsequently measured at amortised cost. The conversion option embedded in the Acquired Convertible Bond was recognised as derivative financial instrument and was measured at fair value on initial recognition and remeasured at each subsequent reporting date. On the date of subscription, the fair values of the debt component and the derivative financial instrument were approximately HK\$38,486,000 and HK\$1,513,000, respectively. As at 1 January 2018, the Acquired Convertible Bond as a whole is treated as financial assets at fair value through profit and loss. The effective interest rate of the debt component of the Acquired Convertible Bond is 3.3% per annum.

The movement of the debt derivative component of the Acquired Convertible Bond for the year is set out below:

	<i>HK\$'000</i>
At 1 January 2018 (Audited)	39,307
Fair value change	<u>352</u>
At 31 December 2018 (Audited) and 31 December 2019 (Unaudited)	<u><u>39,659</u></u>

**(ii) 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 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.

As at 31 December 2019, the fair value measurement of the unlisted fund investment was categorised within Level 2 of the fair value hierarchy. Fair value was recorded at approximately HK\$10,941,000 as at 31 December 2019 and a fair value loss of approximately HK\$9,628,000 was recognised in consolidated profit or loss.

(iii) Unlisted equity investments

	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Audited)
Zhongxin (Heilongjiang) Internet Microfinance Co., Limited* <i>(Note (a))</i>	165,389	175,344
Zuoshishi Technology Service (Beijing) Company Limited* <i>(Note (b))</i>	199,474	270,987
Spring Power Holdings Limited <i>(Note (c))</i>	36,599	36,799
Higgs Wood Culture (Beijing) Co., Limited*	–	342
	<u>401,462</u>	<u>483,472</u>

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

- (a) As at 31 December 2019, the Group has 2% of the issued share capital of an unlisted company incorporated in the PRC, which conducted principally in internet microfinance business. The investment was classified as financial assets at fair value through profit or loss under HKFRS 9 as at 1 January 2018.

In the current year, the management engaged an independent qualified professional valuer to determine the fair value of this investment. In view of US-China trade war which imposes unfavourable impact on overall market sentiment, the valuer considered that it is more appropriate to adopt future sustainable earnings approach to determine the valuation parameters derived from historical earnings in 2018 and 12 months ended 30 June 2019. 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. Fair value was recorded at approximately HK\$165,389,000 as at 31 December 2019 and a fair value loss of approximately HK\$9,955,000 was recognised in consolidated profit or loss.

- (b) As at 31 December 2019, the Group has 11% of the issued share capital of an unlisted company incorporated in the PRC, which engaged principally in the innovation service for start-up technology companies and related investment activities. The investment was classified as financial assets at fair value through profit or loss under HKFRS 9 as at 1 January 2018.

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 a subsidiary of the Company which holds 11% equity interest in this unlisted company. Fair value was recorded at approximately HK\$199,474,000 as at 31 December 2019 and a fair value loss of approximately HK\$71,513,000 was recognised in consolidated profit or loss.

- (c) As at 31 December 2019, 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. The investment was classified as financial assets at fair value through profit or loss under HKFRS 9 as at 1 January 2018.

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. Fair value was recorded at approximately HK\$36,599,000 as at 31 December 2019 and a fair value loss of approximately HK\$200,000 was recognised in consolidated profit or loss.

## 11. TRADE RECEIVABLES

	<b>2019</b> <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Audited)
Trade receivables	<b>834,321</b>	934,358
Less: Allowance for ECLs	<b>(485,916)</b>	(188,219)
	<b><u>348,405</u></b>	<u>746,139</u>

The Group's trading terms with its customers are mainly on credit with credit period generally from 150 to 180 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 pledge of the Group's trade receivables of approximately HK\$600,639,000 (2018: HK\$665,606,000).

The Group applies HKFRS 9 to measure the allowance for ECLs. The Group assesses whether the risk of trade receivables have increased significantly since their initial recognition, and applies an impairment model to calculate their allowance for ECLs, the management assesses allowance for ECLs using the risk parameter modelling approach that incorporates key measurement parameters, including probability of default, loss given default and exposure at default with the consideration of forward-looking information.

During the year ended 31 December 2019, based on management's assessment, the Group recorded allowance for ECLs of approximately HK\$383,667,000 (2018: HK\$181,396,000) in consolidated profit or loss.

Movements in allowance for ECLs on trade receivables are as follows:

	<b>2019</b> <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Audited)
As at 1 January	<b>188,219</b>	6,823
Allowance for ECLs made during the year	<b>383,667</b>	181,396
Reversal of allowance for ECLs	<b>(85,970)</b>	–
As at 31 December	<b><u>485,916</u></b>	<u>188,219</u>

An ageing analysis of the trade receivables at the end of the year, net of allowance for ECLs, based on the invoice date is as follows:

	<b>2019</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2018 <i>HK\$'000</i> (Audited)
Within 30 days	<b>313</b>	597
31 to 60 days	<b>208</b>	747
61 to 90 days	<b>73,569</b>	721
Over 90 days	<b>760,231</b>	932,293
Less: Allowance for ECLs	<b>(485,916)</b>	(188,219)
Total	<b><u>348,405</u></b>	<u>746,139</u>

The ageing analysis of the trade receivables, net of allowance for ECLs, that are not individually nor collectively considered to be impaired is as follows:

	<b>2019</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2018 <i>HK\$'000</i> (Audited)
Neither past due nor impaired	<b>313</b>	462
Less than 31 days past due	<b>208</b>	525
31 to 60 days past due	<b>66</b>	139,862
61 to 90 days past due	–	53,165
Over 90 days past due	<b>833,734</b>	740,344
Less: Allowance for ECLs	<b>(485,916)</b>	(188,219)
Total	<b><u>348,405</u></b>	<u>746,139</u>

Trade receivables that were neither past due nor impaired relate to debtors for whom there was no recent history of default.

## 12. LOAN RECEIVABLE

	<b>2019</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2018 <i>HK\$'000</i> (Audited)
Loan receivable	<b>15,629</b>	15,629
Less: Allowance for ECLs	<b>(15,629)</b>	(15,629)
Less: Portion classified as non-current assets	–	–
Current portion	<b><u>–</u></b>	<u>–</u>

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. As a consequence, allowance for ECLs of approximately HK\$15,629,000 (2018: HK\$15,629,000) has been recognised in respect of such loan receivable.

Movements in allowance for ECLs on loan receivable is as follows:

	<b>2019</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2018 <i>HK\$'000</i> (Audited)
As at 1 January	<b>15,629</b>	–
Allowance for ECLs made during the year	<u>–</u>	<u>15,629</u>
As at 31 December	<u><b>15,629</b></u>	<u>15,629</u>

### 13. TRADE PAYABLES

An ageing analysis of the trade payables at the end of the year, based on the invoice date, is as follows:

	<b>2019</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2018 <i>HK\$'000</i> (Audited)
Within 30 days	<b>156</b>	518
31 to 60 days	<b>29</b>	1,014
Over 60 days	<u><b>59</b></u>	<u>869</u>
	<u><b>244</b></u>	<u>2,401</u>

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

### 14. CONVERTIBLE BONDS

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

The 2018 Convertible Bond and 2019 Convertible Bond 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 Convertible Bond and 2019 Convertible Bond are convertible into approximately 571,429,000 ordinary shares of the Company in aggregate. The 2018 Convertible Bond and the 2019 Convertible Bond, 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 Convertible Bond and the 2019 Convertible Bond 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 Convertible Bond and 2019 Convertible Bond are 22.8% and 23.5%, respectively.

On 10 May 2018, the Company and the bondholder of 2018 Convertible Bond entered into a deed of amendment, pursuant to which the maturity date of 2018 Convertible Bond 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 Convertible Bond is 25.5%.

On 15 May 2019, the Company and the bondholder of 2019 Convertible Bond entered into a deed of amendment, pursuant to which (i) the maturity date of 2019 Convertible Bond was extended from 16 May 2019 to 16 May 2021; (ii) the interest rate was increased from 5% per annum to 6% per annum; (iii) the conversion price changed from HK\$0.35 per share to HK\$0.10 per share; and (iv) the interest rate applicable for calculating the original additional amount will be changed from 12% per annum to 10% per annum. Interest payment dates were not changed. The effective interest rate of the liability component of the extended Convertible Bond is 10.7%.

Both 2018 Convertible Bond and 2019 Convertible Bond have the following early redemption options. 2018 Convertible Bond and 2019 Convertible Bond holders have the right to require the Company to redeem the whole of the 2018 Convertible Bond and 2019 Convertible Bond respectively held by them prior to the maturity date at a redemption price equal to the respective principal amount of 2018 Convertible Bond and 2019 Convertible Bond 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 Convertible Bond and 2019 Convertible Bond, the Company may, at any time prior to the maturity date, redeem in whole the 2018 Convertible Bond and 2019 Convertible Bond 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 Convertible Bond and 2019 Convertible Bond 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 Convertible Bond") with a principal amount of HK\$200,000,000. The maturity date of 2020 Convertible Bond is 30 August 2020.

The 2020 Convertible Bond 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 Convertible Bond is convertible into approximately 571,429,000 ordinary shares of the Company. The 2020 Convertible Bond, if not converted, will be redeemed at its outstanding principal amount together with the any interest accrued thereon. The 2020 Convertible Bond 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 Convertible Bond 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:

	<b>Liability components</b> <i>HK\$'000</i>	<b>Derivative components</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>At 1 January 2018 (Audited)</b>	316,854	70,813	387,667
Loss on modification of 2018 Convertible Bond	(20,900)	26,600	5,700
Interest expenses	91,554	–	91,554
Interest paid	(42,063)	–	(42,063)
Fair value gain on derivative component of convertible bonds	–	(90,793)	(90,793)
<b>At 31 December 2018 and 1 January 2019 (Audited)</b>	345,445	6,620	352,065
Effect on modification of 2019 Convertible Bond	(1,020)	1,020	–
Interest expenses	105,765	–	105,765
Interest paid	(13,000)	–	(13,000)
Fair value gain on derivative component of convertible bonds	–	(7,640)	(7,640)
<b>At 31 December 2019 (Unaudited)</b>	<u>437,190</u>	<u>–</u>	<u>437,190</u>
Represented by:			
Current portion	437,190	–	437,190
Non-current portion	<u>–</u>	<u>–</u>	<u>–</u>
<b>At 31 December 2019 (Unaudited)</b>	<u>437,190</u>	<u>–</u>	<u>437,190</u>

## 15. SHARE CAPITAL

### Shares:

	<b>2019</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2018 <i>HK\$'000</i> <b>(Audited)</b>
Authorised 20,000,000,000 (2018: 20,000,000,000) ordinary shares of HK\$0.01 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid: 6,810,750,454 (2018: 6,810,750,454) ordinary shares of HK\$0.01 each	<u>68,108</u>	<u>68,108</u>



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

	<b>Number of ordinary shares '000</b>	<b>Issued capital HK\$000</b>	<b>Share premium account HK\$000</b>	<b>Total HK\$000</b>
At 1 January 2018 (Audited)	6,634,170	66,342	1,009,032	1,075,374
Issue of ordinary shares (Note)	<u>176,580</u>	<u>1,766</u>	<u>50,681</u>	<u>52,447</u>
<b>At 31 December 2018 (Audited) and At 31 December 2019 (Unaudited)</b>	<b><u>6,810,750</u></b>	<b><u>68,108</u></b>	<b><u>1,059,713</u></b>	<b><u>1,127,821</u></b>

*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.

## **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: 6.1%). 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 this review period. 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 utilizing 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.

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 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*

Cost of sales of the Group declined by approximately 39.9% from approximately HK\$1,031.6 million for the year ended 31 December 2018 to approximately HK\$619.5 million for the year ended 31 December 2019. The decrease was mainly attributable to the decrease in sales volume of materials trading during the period under review.

#### *Gross profit and margin*

The Group recorded a gross profit of approximately HK\$34.8 million for the year ended 31 December 2019, representing a decrease of approximately 47.2% as compared to the gross profit recorded in the prior period under review. The gross profit margin decreased by approximately 0.7% from 6.0% for the year ended 31 December 2018 to 5.3% for the year ended 31 December 2019. The decrease was mainly resulted from the diminution in the trading volume of materials under the turbulent business environment.

#### *Other income, gains and losses, net*

Other income, gains and losses, net of the Group decreased by approximately 117.9%, from net gains of approximately HK\$334.1 million for the year ended 31 December 2018 to net losses of approximately HK\$59.8 million for the year ended 31 December 2019. The decrease was primarily due to the net effect of the (i) fair value losses on financial assets at fair value through profit or loss of approximately HK\$91.6 million (2018: fair value gains on financial assets at fair value through profit or loss of approximately HK\$177.6 million); (ii) fair value loss on investment property of approximately HK\$12.9 million (2018: fair value gain on investment property of approximately HK\$26.3 million); (iii) decrease in fair value gain on derivative financial instruments in relation to convertible bonds of approximately HK\$83.2 million; and (iv) amount received from customers for late settlement of trade receivables of approximately HK\$29.5 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.

#### *General and administrative expenses*

General and administrative expenses of the Group decreased by approximately 19.7% from approximately HK\$123.5 million for the year ended 31 December 2018 to approximately HK\$99.2 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 utilize 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\$157.8 million for the year ended 31 December 2019. The increase was mainly due to more interest incurred on convertible bonds as well as bank and other borrowing during the period under review.

#### *Income tax credit/(expense)*

The Group recorded an income tax credit of approximately HK\$21.8 million for the year ended 31 December 2019 (2018: income tax expense of approximately HK\$27.7 million), which was mainly due to 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 fair value through profit or loss during the period under review.

## Liquidity and Financial Position

	<b>2019</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2018 <i>HK\$'000</i> (Audited)
Current assets	<b>408,748</b>	1,134,065
Current liabilities	<b>934,476</b>	606,457
Current ratio	<b>0.44</b>	1.87

At 31 December 2019, cash and cash equivalents of the Group amounted to approximately HK\$15.0 million (2018: HK\$17.9 million). As at 31 December 2019, the Group had interest-bearing bank and other borrowings amounted approximately HK\$502.4 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 unaudited 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

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Total interest-bearing bank and other borrowings and liability components of convertible bonds	<b>939,588</b>	1,060,973
Total assets	<b>1,198,217</b>	2,039,568
Gearing ratio	<b>78.4%</b>	52.0%

The increase in the gearing ratio was mainly due to the drawdown of certain new interest bearing other borrowings during the period under review.

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\$379.1 million (2018: HK\$360.1 million) and HK\$123.3 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\$42.1 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) and investment property of approximately HK\$237.7 million (2018: HK\$250.5 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\$17.7 million (2018: HK\$17.7 million) has been utilised.

## **Capital Commitments**

As at the end of the reporting period, the Group had outstanding capital commitments amounted to approximately HK\$129.0 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: approximately 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.

## **FINAL 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.

## **REVIEW OF UNAUDITED ANNUAL RESULTS**

The Board wishes to emphasize that the Unaudited Annual Results of the Group set out above is extracted directly from the latest unaudited management accounts of the Group for the year ended 31 December 2019 and is subject to any potential adjustments that might be proposed by the Company’s auditor. Due to the recent epidemic of the COVID-19 and the curbing and quarantine policies implemented by the Chinese government, many cities have been under lockdown and facing travel and other restrictions in efforts to curb the spread of COVID-19. As a result, the progress of the auditor’s audit field work, in particular certain locations of the Company (including in Beijing, Shanghai and Shenzhen), were suspended and affected.

The preparation of the audited consolidated financial statements of the Group for the year ended 31 December 2019 is still in progress and the process of providing further or requisite information to the Company’s auditors for them to perform and complete their audit procedures in respect of the consolidated financial statements of the Group for the year ended 31 December 2019 is still on-going. The Unaudited Annual Results of the Group is subject to change and has not been agreed, reviewed, audited or approved by the auditor of the Company as required under Rule 13.49(2) of the Listing Rules.

In order to keep the shareholders of the Company (the “Shareholders”) and potential investors of the Company informed of the Group’s business operation and financial position, the Board has set forth in this announcement the Unaudited Annual Results as extracted from the latest unaudited management accounts of the Group for the year ended 31 December 2019. The Directors confirmed that the Unaudited Annual Results were prepared on the same basis as used in the audited consolidated financial statements of the Group for the year ended and as of 31 December 2018. The audit committee of the Company has reviewed the Unaudited Annual Results contained herein.

## **FURTHER ANNOUNCEMENT**

Following the completion of the auditing process, the Company will issue further announcements in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company’s auditors and the material differences (if any) as compared with the Unaudited Annual Results contained herein; and (ii) the proposed date on which the forthcoming annual general meeting will be held.



It is expected the Company will announce its audited financial results for the year ended 31 December 2019 no later than 15 May 2020. The Company will publish further announcement(s) to inform Shareholders and potential investors of the Company any material developments in connection with the 2019 audited financial results as and when appropriate.

## **PUBLICATION OF 2019 FINAL RESULTS AND ANNUAL REPORT**

This results announcement is published on the websites of the Company (www.hongdafin.com) and the Stock Exchange (www.hkex.com.hk). The 2019 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 in due course.

**The financial information contained herein in respect of the annual results of the Group has not been audited and has not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.**

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

Hong Kong, 30 March 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; and Mr. Wong Yiu Kit, Ernest, Mr. Zhao Xianming, Dr. Guan Huanfei, and Mr. An Dong as independent non-executive directors.*