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Link Holdings Limited

華星控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8237)

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

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

* For identification purposes only

UNAUDITED ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Link Holdings Limited (the “**Company**”, together with its subsidiaries, collectively the “**Group**”) hereby announces the preliminary unaudited consolidated results of the Group for the financial year ended 31 December 2019 (the “**Year**” or “**FY2019**”), together with the comparative audited figures for the previous financial year ended 31 December 2018 (“**FY2018**”) as set out below. This unaudited annual results announcement has been reviewed by the audit committee of the Company (the “**Audit Committee**”).

Shareholders and potential investors should be aware that the preliminary unaudited consolidated results of the Group for FY2019 has not been agreed with the auditors of the Company as the audit process of the financial results of the Group has been delayed in light of the quarantine measures and travel restrictions due to the outbreak of the novel coronavirus epidemic (the “**Epidemic**”), and is subject to possible deviation from the audited results which will be included in the Company’s annual report for FY2019 and is currently expected to be published by the end of April 2020. Areas of possible material or substantial difference between the information contained in this preliminary announcement of results and that to be contained in the audited results are detailed in the relevant notes to the financial information of this announcement. Shareholders and potential investors are advised to exercise caution when dealing in the shares and other securities of the Company.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

		Year ended 31 December	
		2019	2018
	Notes	HK\$	HK\$
		(Unaudited)	(Audited)
Revenue	5	37,726,009	60,628,594
Cost of sales		<u>(22,003,856)</u>	<u>(15,513,071)</u>
Gross profit		15,722,153	45,115,523
Other income		1,431,880	3,551,575
Other gains and losses	6	(16,130,284)	(138,863)
Selling expenses		(1,837,137)	(2,197,330)
Administrative expenses		(46,401,182)	(40,880,624)
Finance costs	7	(11,512,364)	(8,221,511)
Gain on changes in fair value of investment properties		7,180,393	5,393,060
Share of results of an associate	13	<u>(1,215,369)</u>	<u>(510,484)</u>
(Loss)/profit before income tax expense	8	(52,761,910)	2,111,346
Income tax expense	9	<u>(2,949,672)</u>	<u>(5,164,118)</u>
Loss for the year		<u>(55,711,582)</u>	<u>(3,052,772)</u>

	Year ended 31 December	
	2019	2018
<i>Notes</i>	HK\$	HK\$
	(Unaudited)	(Audited)
Other comprehensive income/(expense) that will not be reclassified to profit or loss:		
Gain on revaluation of properties	3,128,096	395,239
Tax expense related to gain on revaluation of properties	(975,620)	(67,191)
Share of other comprehensive (expense)/income of an associate	(770,422)	977,670
Other comprehensive income/(expense) that may be reclassified subsequently to profit or loss:		
Exchange difference on translating foreign operations	8,061,468	(20,783,385)
Loss on cash flow hedges	(440,554)	(3,968,118)
Other comprehensive income/(expense) for the year, net of tax	<u>9,002,968</u>	<u>(23,445,785)</u>
Total comprehensive expense for the year	<u>(46,708,614)</u>	<u>(26,498,557)</u>
(Loss)/profit attributable to:		
Owners of the Company	(55,624,724)	(3,253,782)
Non-controlling interests	(86,858)	201,010
	<u>(55,711,582)</u>	<u>(3,052,772)</u>
Total comprehensive (expense)/income attributable to:		
Owners of the Company	(46,822,878)	(26,363,031)
Non-controlling interests	114,264	(135,526)
	<u>(46,708,614)</u>	<u>(26,498,557)</u>
Losses per share	<i>10</i>	
– Basic (HK cents per share)	<u>(1.594)</u>	<u>(0.093)</u>
– Diluted (HK cents per share)	<u>(1.594)</u>	<u>(0.093)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		At 31 December	
		2019	2018
	Notes	HK\$ (Unaudited)	HK\$ (Audited)
Non-current assets			
Property, plant and equipment	12	468,348,847	442,567,556
Right-of-use assets		77,579,193	–
Investment properties	12	185,777,959	172,166,917
Prepaid lease payments		–	76,395,966
Interest in an associate	13	43,277,682	46,066,984
Prepayments for construction		713,393	3,108,892
Deposits for acquisition of lands		1,648,344	1,418,751
Distressed debt assets classified as receivables	14	–	41,654,350
Deferred tax asset		772,317	–
		<hr/>	<hr/>
Total non-current assets		778,117,735	783,379,416
		<hr/>	<hr/>
Current assets			
Hotel inventories		416,133	167,975
Repossessed assets		10,192,222	–
Distressed debt assets classified as receivables	14	67,882,280	70,223,599
Trade and other receivables	15	10,562,003	8,049,478
Amount due from an associate	13	64,260	702,733
Cash and cash equivalents		36,685,154	165,255,807
		<hr/>	<hr/>
Total current assets		125,802,052	244,399,592
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	16	65,489,496	76,434,943
Obligations under finance lease		–	171,159
Amount due to a non-controlling shareholder of subsidiaries		8,758,913	8,448,206
Amount due to a director		59,609,880	123,756,917
Interest-bearing bank borrowings		189,469,650	188,081,306
Lease liabilities		1,199,213	–
Provision for taxation		3,294,084	5,427,754
Derivative financial instruments		2,545,661	1,466,587
Convertible Bonds		22,547,249	–
		<hr/>	<hr/>
Total current liabilities		352,914,146	403,786,872
		<hr/>	<hr/>
Net current liabilities		(227,112,094)	(159,387,280)
		<hr/>	<hr/>
Total assets less current liabilities		551,005,641	623,992,136
		<hr/>	<hr/>

		At 31 December	
		2019	2018
	<i>Notes</i>	HK\$	HK\$
		(Unaudited)	(Audited)
Non-current liabilities			
Other payables	<i>16</i>	8,872,723	8,132,163
Obligations under finance lease		–	308,219
Interest-bearing bank borrowings		111,597,814	120,797,387
Lease liabilities		666,388	–
Deferred tax liabilities		25,055,722	22,736,190
Derivative financial instruments		1,848,980	2,455,330
Convertible bonds		–	19,890,219
		<hr/>	<hr/>
Total non-current liabilities		148,041,627	174,319,508
		<hr/>	<hr/>
Net assets		402,964,014	449,672,628
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Share capital		3,490,000	3,490,000
Reserves		393,848,487	440,671,365
		<hr/>	<hr/>
		397,338,487	444,161,365
Non-controlling interests		5,625,527	5,511,263
		<hr/>	<hr/>
Total equity		402,964,014	449,672,628
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Link Holdings Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 15 May 2012 under the Companies Law, Cap 22 of the Cayman Islands. The Company’s registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business in Hong Kong is located at Unit No. 3503, 35/F. of West Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Sheung Wan, Hong Kong.

The ordinary shares of the Company (the “Shares”) are listed on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The immediate and ultimate holding company is Vertic Holdings Limited, a company incorporated in the British Virgin Islands.

The principal activity of the Company is investment holding. The Company’s subsidiaries are principally engaged in hotel ownership, operation of hotel services, distressed debt assets management and property investment.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

The consolidated financial statements have been prepared in accordance with IFRSs (as defined in Note 3(a) below). The accounting policies adopted for the year ended 31 December 2019 are consistent with those adopted in the audited consolidated financial statements for the year ended 31 December 2018, except for those that relate to new/revised standards or interpretations that are effective for the first time for accounting periods beginning on or after 1 January 2019.

The Group has adopted all of the new and revised IFRSs which are relevant to its operations and effective for accounting periods beginning on or after 1 January 2019. A summary of the significant accounting policies adopted by the Group is set out in the Notes to the Consolidated Financial Statements (the “Notes”) section of the 2019 annual report to be sent to the Shareholders in due course.

Except for IFRS 16 “Leases”, the adoption of these new and revised IFRSs does not have significant impact on the accounting policies of the Group, and the amounts reported for the current year and prior years.

The Group has not early adopted the new and revised IFRSs that have been issued but are not yet effective. The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group’s accounting policies and financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations (hereinafter collectively referred to as “IFRSs”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The measurement basis used in preparation of the consolidated financial statement is the historical cost basis except for investment properties, hotel buildings and financial instruments, which are measured at fair values as explained in the accounting policies set out in the Notes.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in the Notes.

(c) Going concern assumption

During the year, the Group has incurred a loss of HK\$55,711,582 (2018: HK\$3,052,772) and at the end of reporting period, its current liabilities exceeded its current assets by HK\$227,112,094 (2018: HK\$159,387,280). The Group is committed to settle the construction payables (current portion) of HK\$52,052,895 in 2020 and convertible bonds liabilities of HK\$25,278,000 in November 2020. The Group may be unable to repay the payables in full when they fall due unless the Group is able to obtain sufficient cash sources through the operation of hotel business. During the year ended 31 December 2019, the operation of hotel business in Japan has incurred a significant segment loss of HK\$12,055,155 (comprising pre-operating loss (before September 2019) of approximately HK\$7.0 million and operating loss of approximately HK\$5.1 million) and the outbreak of Novel Coronavirus (“COVID-19”) in January 2020 has brought additional uncertainties in the Group’s hotel operating environment. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern and, therefore, that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The unaudited consolidated annual results of the Group for the year ended 31 December 2019 was prepared on a going concern basis as the Directors consider the Group will be able to meet its financial obligations as they fall due for the twelve months from 31 December 2019.

(d) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

4. OPERATING SEGMENT INFORMATION

Management determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. The chief operating decision-maker considers the business primarily on the basis of the geographical locations. The Group is currently organised into four reportable segments. The following summary describes the operations in each of the Group’s reportable and operating segments:

- Operation of hotel business in Singapore, Indonesia and Japan
- Distressed debt asset management in PRC

(a) Reportable segments

Management assesses the performance of the operating segments based on the measure of segment results which represents the net of revenues, incomes and gains, costs and expenditures directly attributable to each operating segment. Corporate income, central administrative cost and finance cost and share of results of an associate are not allocated to the operating segments as they are not included in the measure of the segment results that are used by the chief operating decision-maker for assessment of segment performance.

The following is an analysis of the Group’s revenue and results by reportable segment for the year:

Segment revenue and results

	Operation of hotel business			Distressed debt asset management	Total HK\$ (Unaudited)
	Singapore HK\$ (Unaudited)	Indonesia HK\$ (Unaudited)	Japan HK\$ (Unaudited)	The PRC HK\$ (Unaudited)	
For the year ended 31 December 2019					
External revenue/(loss)	<u>52,072,444</u>	<u>–</u>	<u>3,162,988</u>	<u>(17,509,423)</u>	<u>37,726,009</u>
Segment profit/(loss)	<u>1,378,132</u>	<u>730,288</u>	<u>(12,055,155)</u>	<u>(33,130,489)</u>	<u>(43,077,224)</u>
Corporate income					
– Others					37,598
Central administrative cost and finance cost					(8,506,915)
Share of results of an associate					<u>(1,215,369)</u>
Loss before income tax expense					<u>(52,761,910)</u>

	Operation of hotel business			Distressed debt asset management	Total HK\$ (Audited)
	Singapore HK\$ (Audited)	Indonesia HK\$ (Audited)	Japan HK\$ (Audited)	The PRC HK\$ (Audited)	
For the year ended 31 December 2018					
External revenue	<u>50,675,055</u>	<u>–</u>	<u>–</u>	<u>9,953,539</u>	<u>60,628,594</u>
Segment profit	<u>3,135,689</u>	<u>3,925,982</u>	<u>1,720,736</u>	<u>3,553,202</u>	12,335,609
Corporate income – Others					26,701
Central administrative cost					(9,740,480)
Share of results of an associate					<u>(510,484)</u>
Profit before income tax expense					<u>2,111,346</u>

Segment results represents the profit/(loss) earned/(charged) by each segment without allocation of corporate income (which includes other income), corporate finance cost, share of results of an associate and central administrative cost. Central administrative cost mainly included legal and professional fees and corporate staff costs. This is the information reported to the chief operating decision-maker for the purpose of resource allocation and performance assessment.

(b) **Disaggregation of revenue**

	Hotel business		Distressed debt asset management		Total	
	2019 HK\$ (Unaudited)	2018 HK\$ (Audited)	2019 HK\$ (Unaudited)	2018 HK\$ (Audited)	2019 HK\$ (Unaudited)	2018 HK\$ (Audited)
Primary geographical markets						
Singapore	52,072,444	50,675,055	-	-	52,072,444	50,675,055
Japan	3,162,988	-	-	-	3,162,988	-
PRC	-	-	(17,509,423)	9,953,539	(17,509,423)	9,953,539
Total	<u>55,235,432</u>	<u>50,675,055</u>	<u>(17,509,423)</u>	<u>9,953,539</u>	<u>37,726,009</u>	<u>60,628,594</u>
Major services and timing of revenue recognition						
At a point of time						
Sales of food and beverage	6,784,405	3,337,927	-	-	6,784,405	3,337,927
Others	52,917	56,497	-	-	52,917	56,497
Transferred over time						
Hotel room services	41,438,815	39,820,959	-	-	41,438,815	39,820,959
Others	1,184,234	1,377,369	-	-	1,184,234	1,377,369
Rental income from hotel properties (<i>note</i>)	5,775,061	6,082,303	-	-	5,775,061	6,082,303
Income from distressed debt assets classified as receivables (<i>note</i>)	-	-	(17,509,423)	9,953,539	(17,509,423)	9,953,539
Total	<u>55,235,432</u>	<u>50,675,055</u>	<u>(17,509,423)</u>	<u>9,953,539</u>	<u>37,726,009</u>	<u>60,628,594</u>

Note: Rental income from hotel properties and income from distressed debt assets classified as receivables are not within the scope of IFRS 15. Accordingly, income from these businesses is shown separately from the disaggregation of revenue from contracts with customers recognised at a point in time or transferred over time.

(c) **Information about major customers**

The Group did not have any single customer that contributed more than 10% of the Group's revenue during the year.

5. REVENUE

An analysis of the Group's revenue mainly represents the aggregate amount of income from hotel operations and distressed debt assets. An analysis of revenue is as follows:

	Year ended 31 December	
	2019 <i>HK\$</i> (Unaudited)	2018 <i>HK\$</i> (Audited)
Income from distressed debt assets classified as receivables	22,638,016	33,336,005
Less: modification loss (<i>note a</i>)	(40,147,439)	(23,382,466)
	(17,509,423)	9,953,539
Hotel room	41,438,815	39,820,959
Food and beverage	6,784,405	3,337,927
Rental income from hotel properties	5,775,061	6,082,303
Others (<i>note b</i>)	1,237,151	1,433,866
	<u>37,726,009</u>	<u>60,628,594</u>

Notes:

- The amount arising from adjusting the gross amount of distressed debt assets to reflect the renegotiated or modified estimated cash flow.
- The amount mainly represents laundry and car park services from hotel operations.

6. OTHER GAINS AND LOSSES

	Year ended 31 December	
	2019 <i>HK\$</i> (Unaudited)	2018 <i>HK\$</i> (Audited)
Gain on disposal of property, plant and equipment	121,131	156,915
Loss allowance for expected credit losses ("ECLs") of distressed debt assets	(11,000,000)	–
Write off of property, plant and equipment	(5,251,415)	(295,778)
	<u>(16,130,284)</u>	<u>(138,863)</u>

7. FINANCE COSTS

	Year ended 31 December	
	2019 HK\$ (Unaudited)	2018 HK\$ (Audited)
Interest on bank borrowings (<i>note a</i>)	10,510,455	10,808,958
Bank overdraft interest	2,848	22,937
Interest on lease liabilities (<i>note b</i>)	127,750	–
Finance lease interest	–	30,840
Convertible bonds	2,659,548	2,346,717
	<hr/>	<hr/>
Total interest expense on financial liabilities not at fair value through profit or loss	13,300,601	13,209,452
Less: amount capitalised (<i>note c</i>)	(2,940,703)	(4,987,941)
	<hr/>	<hr/>
	10,359,898	8,221,511
Interest rate swap: cash flow hedges	1,152,466	–
	<hr/>	<hr/>
	11,512,364	8,221,511
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- This analysis shows the finance costs of bank borrowings, including term loans which contain scheduled repayment date and repayment on demand clause.
- The Group has initially applied IFRS 16 as at 1 January 2019 using the cumulative effect approach. Under this approach, comparative information is not restated.
- Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 3.84%(2018: 3.41%) to expenditure on qualifying assets.

8. (LOSS)/PROFIT BEFORE INCOME TAX EXPENSE

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

	Year ended 31 December	
	2019 HK\$ (Unaudited)	2018 HK\$ (Audited)
Staff costs (excluding directors' remuneration)	21,583,583	20,976,864
Depreciation of property, plant and equipment (included in administrative expenses)		
– Owned	11,881,936	10,513,797
– Held under finance leases	–	296,285
– Right-of-use assets (<i>note</i>)	2,487,544	–
	<hr/>	<hr/>
	14,369,480	10,810,082
Amortisation of prepaid lease payments (<i>note</i>) (included in administrative expenses)	–	1,589,774
Auditor's remuneration	1,100,000	1,080,000
Bad debt written off	25,695	203,231
Legal and professional fees	4,039,197	5,027,048
Minimum lease payments under operating leases		
– Buildings (under IAS 17) (<i>note</i>)	–	1,081,743
– Short-term lease expenses (under IFRS 16)	578,760	–
Property taxes	2,435,742	2,049,774
	<hr/> <hr/>	<hr/> <hr/>

Note: The Group has initially applied IFRS 16 using the cumulative effect approach. 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 and amortisation of prepaid lease payments incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated.

9. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2018: nil).

Singapore corporate income tax has been provided on the estimated assessable profit arising in Singapore at the rate of 17% (2018: 17%).

The subsidiaries in Indonesia are subject to 25% on their assessable profit as determined in accordance with the relevant Indonesia income tax rules and regulations (2018: 25%).

The PRC Enterprise Income Tax is calculated at 25% on the estimated assessable profits of a subsidiary operating in the PRC (2018: 25%).

Subsidiary operating in Japan is subject to national corporate income tax, inhabitant tax, and enterprise tax (hereinafter collectively referred to as “Japan Profits Tax”) in Japan, which, in aggregate, resulted in effective statutory income tax rates of approximately 33.59% for the year based on the existing legislation, interpretations and practices in respect thereof (2018: 23%). No provision for Japan Profits Tax has been provided as the Group has no estimate assessable profit arising in Japan for the year ended 31 December 2019.

Taxes on profits assessable in elsewhere have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

The amount of taxation in the consolidated statement of comprehensive income represents:

	Year ended 31 December	
	2019	2018
	HK\$	HK\$
	(Unaudited)	(Audited)
Current – Singapore Corporate Income Tax		
– Tax for the year	(3,270,185)	(2,765,254)
– Over/(under) provision in respect of prior years	457,937	(355,988)
	(2,812,248)	(3,121,242)
Deferred tax		
– Current year	(137,424)	(2,042,876)
Total income tax expense	(2,949,672)	(5,164,118)

10. LOSSES PER SHARE

The calculation of the basic and diluted losses per share attributable to the owners of the Company is based on the following data:

	2019 HK\$ (Unaudited)	2018 HK\$ (Audited)
Losses		
Losses for the purposes of basic losses per share	(55,624,724)	(3,253,782)
Interest expenses on convertible bonds	—	—
	<hr/>	<hr/>
Losses for the purposes of diluted losses per share	<u>(55,624,724)</u>	<u>(3,253,782)</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic losses per share	3,490,000,000	3,490,000,000
Effect of dilutive potential ordinary shares on convertible bonds	<u>N/A</u>	<u>N/A</u>
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purposes of diluted losses per share	<u>3,490,000,000</u>	<u>3,490,000,000</u>

Ordinary shares are derived from 3,490,000,000 ordinary shares, being the number of shares in issue during the year ended 31 December 2019 (2018: 3,490,000,000 ordinary shares).

For the years ended 31 December 2019 and 2018, diluted losses per share are the same as basic losses per share as the impact of the potential dilutive ordinary shares outstanding has an anti-dilutive effect on the basic losses per share.

11. DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2019 (2018: nil).

12. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

The Group's property, plant and equipment comprise, among others, construction in progress and hotel buildings.

As at 31 December 2019, construction in progress includes all costs related to the construction of the resorts and amenities. The accumulated costs will be transferred to the appropriate property, plant and equipment upon completion.

The Group's hotel buildings in Singapore and Japan were valued on 31 December 2019 by AVISTA Valuation Advisory Limited ("Avista"), an independent qualified professional valuer.

The investment properties of the Group comprised land parcels located in Bintan Islands, Indonesia which are held under medium-term lease and currently at undetermined future use. The valuations of such land parcels were carried out by Avista as at 31 December 2019 and 31 December 2018.

13. INTEREST IN AN ASSOCIATE

	At 31 December	
	2019	2018
	HK\$	HK\$
	(Unaudited)	(Audited)
Share of net assets of an associate	38,729,353	41,430,587
Goodwill	4,548,329	4,636,397
	<u>43,277,682</u>	<u>46,066,984</u>
Amount due from an associate (<i>note</i>)	<u>64,260</u>	<u>702,733</u>

Note: Amount due from an associate is unsecured, interest-free and repayable on demand.

Due to the travel and other restrictions that have arisen in response to the recent outbreak of the coronavirus which became pandemic since March 2020, the reporting process in respect of the financial information of an associate made up to 31 December 2019 has been disrupted. As such, the carrying amount of interest in an associate as at 31 December 2019, the share of results of an associate for the year ended 31 December 2019 and the share of other comprehensive income/(expense) of an associate for the year ended 31 December 2019 as disclosed in this announcement are based on the unaudited financial information of the associate made up to 30 June 2019.

Please also refer to the section headed “Possible qualified opinions in the auditor’s report” below for further details.

14. DISTRESSED DEBT ASSETS CLASSIFIED AS RECEIVABLES

	At 31 December	
	2019	2018
	HK\$	HK\$
	(Unaudited)	(Audited)
Current	67,882,280	70,223,599
Non-current	–	41,654,350
	<u>67,882,280</u>	<u>111,877,949</u>

For distressed debt assets classified as receivables, it represented the receivables from the obligors of non-performing loans. The borrowers are obliged to settle the amount according to the terms set out in relevant loan. These receivables classified as receivables are measured at amortised cost using the effective interest method in accordance with IFRS 9 “Financial Instruments”. The effective interest rate is the rate that exactly discounts estimated future cash receipts over the expected life of the distressed debt assets.

The Directors assessed that the fair value of collateral over the distressed debt are less than the carrying amount of distressed debt assets classified as receivables, loss allowance for ECLs of HK\$11,000,000 is recognised as at 31 December 2019 (2018: nil).

15. TRADE AND OTHER RECEIVABLES

As at 31 December 2019, trade and other receivables comprised trade receivables of HK\$4,224,434 (2018: HK\$2,589,275).

Trade receivables, which generally have credit terms of 30 days, are recognised and carried at their original invoiced amounts less impairment which is made when collection of the full amounts is no longer probable. Bad debts are written off as incurred.

The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest bearing.

The aged analysis as at the end of reporting period, based on the invoice date, is as follows:

	At 31 December	
	2019 HK\$ (Unaudited)	2018 HK\$ (Audited)
Current to 30 days	3,811,033	2,210,652
31 to 60 days	325,990	295,139
61 to 90 days	30,227	25,498
Over 90 days	57,184	57,986
	4,224,434	2,589,275
	4,224,434	2,589,275

16. TRADE AND OTHER PAYABLES

As at 31 December 2019, trade and other payables comprised trade payables of HK\$1,291,087 (2018: HK\$800,292).

The Group normally obtains credit terms of up to 30 days from its suppliers. Trade payables are interest-free. The aged analysis of trade payables as at the end of reporting period, based on the invoice dates, is as follows:

	At 31 December	
	2019 HK\$ (Unaudited)	2018 HK\$ (Audited)
Current to 30 days	1,104,400	517,326
31 to 60 days	–	28,577
Over 90 days	186,687	254,389
	1,291,087	800,292
	1,291,087	800,292

As at 31 December 2019, other payables comprised construction payables with current portion of HK\$52,052,895 (2018: HK\$67,029,044) and non-current portion of HK\$8,872,723 (2018: HK\$8,132,163).

17. EVENTS AFTER THE END OF THE REPORTING PERIOD

Since January 2020, the PRC has reported certain confirmed cases of Novel Coronavirus (“**COVID-19**”) which affect the global business environment. The outbreak of COVID-19 has led to a slow-down in travelling to Singapore and Japan and is severely affecting hospitality business of the Group. Up to the date of this announcement, COVID-19 has brought about additional uncertainties in the Group's hotel operating environment. Pending on the development and spread of COVID-19 subsequent to the date of this announcement, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this announcement. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Group.

POSSIBLE QUALIFIED OPINIONS IN THE AUDITOR’S REPORT

(1) Interest in an associate, share of results of an associate, and share of other comprehensive income of an associate

In light of the Epidemic which occurred in January 2020, an associate (together with its subsidiaries, the “**associate group**”), which is principally engaged in hotel operation and tourism business in the People’s Republic of China (the “**PRC**”), has suspended its business and its other major administrative operations since the Chinese New Year in late January 2020. Further, due to the quarantine measures and travel restrictions caused by the Epidemic, the reporting and audit processes in respect of the financial information of the associate has been disrupted. As such, the carrying amount of interest in an associate as at 31 December 2019, the share of results of an associate for the year ended 31 December 2019, and the share of other comprehensive income/(expense) of an associate for the year ended 31 December 2019 as disclosed in this announcement are based on the unaudited financial information of the associate group made up to 30 June 2019.

It is uncertain when the travel restrictions and other precautionary measures against the Epidemic will be lifted. Should the Epidemic continue and hinder the reporting process of the associate group and consequently the audit process, possible qualified opinion due to a material misstatement of the financial information of the associate group or limitation of scope in relation to the audit of the financial information of the associate group (as the case may be), will be addressed in the auditor’s report for the year ended 31 December 2019 which is currently expected to be published by the end of April 2020. As a consequence, among others, the carrying amount of interest in an associate as at 31 December 2019, the share of results of an associate for the year ended 31 December 2019 and the share of other comprehensive income/(expense) of an associate for the year ended 31 December 2019 may be qualified in the auditor’s report.

Nevertheless, the Company will closely monitor the development of the reporting and audit processes, in order to avoid a qualified opinion in the auditor’s report with regard to a material misstatement or limitation of scope as aforesaid.

(2) Fundamental uncertainty in relation to going concern assumption

The unaudited consolidated annual results of the Group for the year ended 31 December 2019 was prepared on a going concern basis as the Directors consider the Group will be able to meet its financial obligations as they fall due for the twelve months from 31 December 2019, notwithstanding the net current liabilities position of the Group as at 31 December 2019. However, it is uncertain as to the development of the Epidemic from the date of this announcement up to the date of publication of the audited financial statements. In particular, the Group’s operations and the business environment may become worsen by then. As such, it is possible that the auditor’s report will include a qualified opinion in relation to the material uncertainty of the going concern basis adopted in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group commenced its hotel business in Singapore with the opening of Link Hotel in 2007, and commenced the distressed debt assets management business in 2017. The Group also opened a new spa hotel, namely Hanatsubaki Spa Hotel in Japan in September 2019.

For the Year, the Group continued to stay focus on the operation of its hotel business, and the construction of the resort hotel situated in Bintan, Indonesia pursuant to the master plan of the development of the Bintan Assets (as defined in the prospectus of the Company dated 30 June 2014 (the “Prospectus”). Save as disclosed in this announcement, there is no material change in the Group’s businesses during the Year. The operation of Link Hotel in Singapore continued to generate the main source of income for the Group during the Year.

FINANCIAL REVIEW

For FY2019, the Group recorded a total revenue of approximately HK\$37.7 million (2018: HK\$60.6 million), accounting for a decrease of approximately HK\$22.9 million or 37.8% as compared to FY2018, which was mainly due to the record of negative income from distressed debt assets.

For FY2019, loss attributable to owners of the Company was approximately HK\$55.6 million (2018: loss of approximately HK\$3.3 million), representing a substantial increase in loss by approximately HK\$52.4 million or 16.1 times. Such deterioration of the Group’s financial performance was mainly due (i) the recognition of negative income from the Group’s distressed debt assets (i.e. income from distressed debt assets classified as receivables less modification loss) of approximately HK\$17.5 million for the Year as compared to the positive income of approximately HK\$10.0 million recorded for the last year; (ii) the record of loss allowance for expected credit losses on the Group’s distressed debt assets (which were located in the PRC) of approximately HK\$11.0 million (2018: nil) in view of the slow recoverability during the Year and the anticipated decrease in value realisable underlying the current downtrend of the PRC economy; (iii) write off of construction in progress of approximately HK\$5.3 million (2018: nil) due to the slowdown of the construction of the resort hotel in Bintan, Indonesia in light of the Group’s tight financial resources during the Year; and (iv) the increase in pre-operating loss by approximately HK\$6.0 million in respect of the Group’s newly opened spa hotel in Japan and the incurring of operating loss of approximately HK\$5.1 million since its commencement of operation in September 2019.

Basic losses per share for FY2019 was approximately HK cents 1.594 (2018: basic losses per share of approximately HK cents 0.093).

Hotel operation

For the Year, room revenue amounted to approximately HK\$41.4 million (2018: approximately HK\$39.8 million), accounting for approximately 75.0% (2018: approximately 78.6%) of the Group’s total revenue from hotel operation. Room revenue mainly represents revenue generated from hotel accommodation in Link Hotel, which accounted for approximately 96.3% of total room revenue for the Year (2018: 100%), and depends in part on the achieved average room rate and occupancy rate. Room revenue for the Year also included a small contribution from the Group’s spa hotel in Japan since its commencement of operation in September 2019.

The following table sets out the total available room nights, occupancy rate, average room rate and Revenue per Available Room (“RevPAR”) of Link Hotel for the years indicated:

	Year ended 31 December	
	2019	2018
Total available room nights	100,010	100,010
Occupancy rate	65.0%	62.61%
Average room rate (<i>HK\$</i>)	555.5	577.7
RevPAR (<i>HK\$</i>)	362.5	361.5

For the Year, food and beverage (“F&B”) revenue was approximately HK\$6.8 million (2018: approximately HK\$3.3 million), representing approximately 12.3% (2018: approximately 6.6%) of the total revenue from hotel operation. F&B revenue represents the sale of F&B in the restaurants, bars, room services and meeting spaces of the Group’s hotels.

The Group leased shop units in its hotels and received rental income from hotel tenants. For the Year, rental income from hotel tenants was approximately HK\$5.8 million (2018: approximately HK\$6.1 million) representing approximately 10.5% (2018: approximately 12.0%) of the total revenue from hotel business.

Bintan Assets

The construction contract for the first stage of the first phase of the Bintan Development Plan (as defined in the Prospectus) was signed in September 2016 (detailed as disclosed in the Company’s announcement dated 29 September 2016). During 2017, the construction plan has been amended for more fitting to the latest theme of the resort. During the Year, due to the tight financial resources, the construction progress was slowdown. Based on the assessment of the Group’s financial resources available, the Group made certain design changes in order to accommodate for a reduced budget of the overall construction cost. The Group also continued working on the improvement changes of various construction works during the Year. In view of the above and that the recent Epidemic affected the supply chains of various sectors worldwide, it is currently expected that the construction of the resort hotel will be completed in the first half of 2021.

Distressed debt assets management business

During the Year, the the Group recorded negative income from distressed debts assets (net of modification loss) of approximately HK\$17.5 million (2018: positive income of approximately HK\$10.0 million). Besides, due to the slow recoverability of the distressed debts during the Year and the anticipated decrease in value realisable underlying the current downtrend of the PRC economy, the Group recorded a loss allowance for expected credit losses on distressed debt assets of approximately HK\$11.0 million for the Year (2018: nil).

Liquidity, financial resources and capital structure

During the Year, the Group mainly financed its operations with its own working capital and bank loans. As at 31 December 2019, the Group had net current liabilities of approximately HK\$227.1 million (2018: net current liabilities of approximately HK\$159.4 million), including cash and cash equivalents of approximately HK\$36.7 million (2018: approximately HK\$165.3 million) and short-term interest-bearing bank borrowings of approximately HK\$189.5 million (2018: approximately HK\$188.1 million). As at 31 December 2019, the Group also had non-current interest-bearing bank borrowings of approximately HK\$111.6 million (2018: approximately HK\$120.8 million).

The Directors have been closely monitoring its working capital and considered appropriate funding such as internal operating fund, unutilised banking facilities and seeking new external funding. The Directors will manage the capital of the Group and ensure that the Group will have sufficient financial resources to finance its working capital requirements.

The gearing ratio calculated based on the Group's total debts (being interest-bearing bank borrowings and convertible bonds) divided by the Group's total equity and multiplied by 100% as at 31 December 2019 was approximately 80.3% (2018: approximately 73.1%).

There is no cancellation, conversion or redemption of the convertible bonds during the Year. As such, the outstanding principal amount of the convertible bonds remained approximately HK\$25.3 million as at 31 December 2019 (2018: approximately HK\$25.3 million) with the maturity date due on 30 November 2020.

Significant investments

Save as disclosed in this announcement, the Group did not acquire or hold any significant investment during the Year (2018: nil).

Material acquisitions and disposals

During the Year, the Group did not have any material acquisitions and disposals.

Contingent liabilities

As at 31 December 2019, the Group did not have any material contingent liabilities (2018: nil).

Employees and remuneration policies

As at 31 December 2019, the Group engaged a total of approximately 90 employees (2018: approximately 60). Total staff costs excluding Directors' remuneration for the Year amounting to approximately HK\$21.6 million (2018: approximately HK\$21.0 million). The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of performance and experience of individual employees.

The Group provides retirement benefits in accordance with the relevant laws and regulations in the place where the staff is employed.

The Company has adopted a share option scheme pursuant to which the Directors and employees of the Group are entitled to participate. As at 31 December 2019, no options had been granted under the share option scheme.

Foreign currency exposure

Substantially all the transactions of the Group's subsidiaries in Singapore, Indonesia, Japan and the PRC are carried out in Singapore dollar, Indonesia Rupiah, Japanese Yen and Renminbi ("RMB") respectively, which are the functional currencies of the subsidiaries. Therefore, foreign currency risk for the respective currencies above are minimal. However, the translation of functional currencies for respective subsidiaries above to presentation currency in Hong Kong dollar might be exposed to foreign currency risk. During the Year, the Group had not used any financial instruments for foreign currency risk hedging purposes. For the analysis of the Group's foreign currency risk, please refer to the Notes to the Consolidated Financial Statements included in the 2019 annual report to be published in due course.

Charges on group assets

As at 31 December 2019, certain property, plant and equipment of the Group with net carrying amount of approximately HK\$168.9 million (2018: approximately HK\$175.8 million) were pledged to secure for the banking facilities.

Dividends

The Directors do not recommend the payment of final dividend for the Year (2018: nil).

OUTLOOK

The Group adopts an optimistic attitude in the future growth of its businesses. Apart from attracting new valuable guests to Link Hotel in Singapore and the newly opened Hanatsubaki Spa Hotel in Japan, the Group will continue to focus on the development of the Bintan Land to contribute income to the Group and increase return of the assets and enterprise value, with an aim to be a leader of vacation and resort industry in Asia with international competitiveness. To broaden the Group's income stream, the Group will take the opportunity of "One Belt, One Road" and continuously seek potential acquisition opportunities in the PRC.

Although the Group is facing challenges arising from the recent Epidemic since January 2020 which leads to the travel restrictions of tourists from Hong Kong, China and certain countries, and affects the Group's hotel business in Asia, the Directors consider such unfavorable environment is short-term and will not affect the Group's hotel business in the medium to long run. The Group will continue to explore potential projects for expanding its business horizon to the Greater China region and other Asian countries in order to capture the opportunities arising from the growth in the tourism industry in the PRC and other areas in Asia. Nevertheless, the Group will take a cautious approach when seeking potential acquisition opportunities to maximise shareholders' value.

EVENT AFTER THE REPORTING DATE OF 31 DECEMBER 2019

Save for the impact to the Group's business and operations as a result of the Epidemic as disclosed above, which may affect the financial results of the Group, the Board is not aware of any important event requiring disclosure that has been taken place subsequent to 31 December 2019 and up to the date of this announcement. For details, please refer to Note 17 to the unaudited consolidated financial statements of the Group.

OTHER INFORMATION

AUDIT COMMITTEE

The Audit Committee is responsible for, among others, reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls systems, and providing advice to the Board. The Audit Committee comprises the three independent non-executive Directors. Mr. Chan So Kuen is the chairman of the Audit Committee.

The Audit Committee has met with the external auditor of the Group to review the accounting principles and policies adopted by the Group, and discussed auditing, internal control, risk management and financial reporting matters including the review of this announcement and the unaudited consolidated financial statements of the Group for the Year.

COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the Year and up to and including the date of this announcement.

CORPORATE GOVERNANCE CODE

During the Year, the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

By Order of the Board
Link Holdings Limited
Ngan Iek
Chairman and Executive Director

Hong Kong, 31 March 2020

As at the date of this announcement, the executive Directors are Mr. Ngan Iek and Datuk Siew Pek Tho; the non-executive Directors are Ms. Ngan Iek Peng, Mr. Zhao Guoming and Ms. Zhang Shuo; and the independent non-executive Directors are Mr. Thng Bock Cheng John, Mr. Chan So Kuen, and Mr. Lai Yang Chau, Eugene.

This announcement will remain on the "Latest Company Announcements" page of the GEM Website at www.hkgem.com for at least 7 days from the date of its posting. This announcement will also be published on the Company's website at www.linkholdingslimited.com.