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CHINA WOOD
中木國際

CHINA WOOD INTERNATIONAL HOLDING CO., LIMITED

中木國際控股有限公司

(Joint Provisional Liquidators appointed)

(For restructuring purposes only)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- The Group recorded a revenue of approximately HK\$24.3 million for the year ended 31 December 2020 (2019: approximately HK\$654.3 million).
- The Group's net loss attributable to owners of the Company for the year ended 31 December 2020 amounted to approximately HK\$1,056.0 million (2019: approximately HK\$691.6 million).
- The Board does not recommend the payment of any final dividend for the year ended 31 December 2020 (2019: Nil).

The board of directors (the “**Board**”) of China Wood International Holding Co., Limited (the “**Company**”) hereby announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2020 together with the comparative audited figures for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
REVENUE	<i>5</i>	24,304	654,318
Cost of sales and services rendered		<u>(19,906)</u>	<u>(614,262)</u>
Gross profit		4,398	40,056
Other income, gains and losses, net	<i>6</i>	(374,992)	(50,584)
Allowances for expected credit losses (“ECLs”) on trade receivables, loan and other receivables, net		(348,305)	(382,779)
Impairment of amount due from an associate		–	(8,783)
Provision for financial guarantee		(7,200)	(25,800)
Selling and distribution expenses		(2,922)	(7,860)
Administrative expenses		(44,617)	(100,517)
Other expenses		<u>(212,513)</u>	<u>(6,823)</u>
Loss from operation		(986,151)	(543,090)
Finance costs	<i>7</i>	(120,129)	(158,603)
Share of results of joint ventures		(1,091)	(551)
Share of results of an associate		–	<u>(4,480)</u>
LOSS BEFORE TAX	<i>8</i>	(1,107,371)	(706,724)
Income tax credit/(expense)	<i>9</i>	<u>42,952</u>	<u>(14,350)</u>
LOSS FOR THE YEAR		<u>(1,064,419)</u>	<u>(721,074)</u>
OTHER COMPREHENSIVE INCOME, NET OF TAX			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(1,206)	(502)
Exchange difference reclassified to profit or loss on disposal of foreign operations		<u>(149)</u>	–
Other comprehensive income for the year		<u>(1,355)</u>	<u>(502)</u>
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>(1,065,774)</u>	<u>(721,576)</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (CONTINUED)**

For the year ended 31 December 2020

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		(1,055,985)	(691,607)
Non-controlling interests		(8,434)	(29,467)
		<u>(1,064,419)</u>	<u>(721,074)</u>
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		(1,056,804)	(692,701)
Non-controlling interests		(8,970)	(28,875)
		<u>(1,065,774)</u>	<u>(721,576)</u>
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted (HK dollar)	<i>10</i>	<u>(3.09)</u>	(restated) <u>(2.03)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	<i>Note</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		12,742	22,696
Investment property		–	237,651
Right-of-use assets		1,018	2,760
Goodwill		–	–
Intangible assets		31,082	38,248
Interests in joint ventures		–	1,091
Interest in an associate		–	–
Deferred tax assets		35	–
Financial assets at fair value through profit or loss ("FVTPL")	<i>11</i>	58,632	414,304
		103,509	716,750
CURRENT ASSETS			
Inventories		6,497	5,898
Trade receivables	<i>12</i>	956	348,405
Loan receivable	<i>13</i>	–	–
Financial assets at FVTPL	<i>11</i>	–	39,091
Prepayments, deposits and other receivables		47,450	25,434
Tax recoverable		–	444
Restricted bank balances		1,467	–
Bank balances		3,332	13,994
		59,702	433,266

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2020

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
CURRENT LIABILITIES			
Trade payables	<i>14</i>	3,773	244
Other payables and accruals		328,301	110,667
Interest-bearing bank and other borrowings		638,843	484,165
Lease liabilities		1,317	4,060
Derivative financial instruments	<i>15</i>	–	1,430
Convertible bonds	<i>15</i>	143,980	437,190
Financial guarantee	<i>16</i>	33,000	25,800
		<hr/> 1,149,214	<hr/> 1,063,556
NET CURRENT LIABILITIES		<hr/> (1,089,512)	<hr/> (630,290)
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> (986,003)	<hr/> 86,460
NON-CURRENT LIABILITIES			
Other payables		–	9
Interest-bearing other borrowings		–	16,670
Lease liabilities		496	2,800
Deferred tax liabilities		–	48,563
		<hr/> 496	<hr/> 68,042
NET (LIABILITIES)/ASSETS		<hr/> (986,499)	<hr/> 18,418
EQUITY			
Equity attributable to owners of the Company			
Share capital	<i>17</i>	68,515	68,108
Reserves		(1,047,290)	9,514
		<hr/> (978,775)	<hr/> 77,622
Non-controlling interests		(7,724)	(59,204)
TOTAL (DEFICIENCY IN ASSETS)/EQUITY		<hr/> (986,499)	<hr/> 18,418

NOTES

1. CORPORATE INFORMATION

China Wood International Holding Co., Limited (formerly known as HongDa Financial Holding Limited) (in provisional liquidation for the purpose of restructuring) (the “**Company**”) was incorporated in the Cayman Islands with limited liability. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. During the reporting period, the Company’s principal place of business in Hong Kong has been changed from Suite 2603, 26th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong to Room 1808-1810, 18/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong and then to Room 3006-07, 30/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

As at 31 December 2020, the directors of the Company are of the opinion that Sino Merchant Car Rental Limited (“**Sino Merchant**”), a company incorporated in the British Virgin Islands (“**BVI**”), is the immediate and ultimate holding company of the Company; Ms. Deng Shufen and Ms. Liu Jiangyuan, the shareholders of Sino Merchant, are the ultimate controlling parties of the Company.

Pursuant to a special resolution passed at the annual general meeting of the Company held on 23 June 2020, the Shareholders have approved to change the English name of the Company from “HongDa Financial Holding Limited” to “China Wood International Holding Co., Limited” and to change the dual foreign name in Chinese of the Company from “弘達金融控股有限公司” to “中木國際控股有限公司”.

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

Appointment of the joint provisional liquidators for restructuring proposes only

To facilitate the Company’s financial restructuring, on 2 February 2021, Osmun Mohammed Arab and Lai Wing Lun at RSM Corporate Advisory (Hong Kong) Limited, and Martin Nicholas John Trott of R&H Restructuring (Cayman) Ltd., were appointed as joint provisional liquidators (“**JPLs**”) of the Company. Details of the above are set out in the Company’s announcements dated 2 February 2021 and dated 5 February 2021 respectively.

2. BASIS OF PREPARATION

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

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

Going concern assumption

For the year ended 31 December 2020, the Group incurred a loss of approximately HK\$1,064,419,000 and as at 31 December 2020, the Group had net current liabilities and net liabilities of approximately HK\$1,089,512,000 and HK\$986,499,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern. Therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In preparing these consolidated financial statements, the directors of the Company have given careful consideration to the impact of the current and anticipated future liquidity of the Group. The validity of the Group to operate as a going concern depends upon whether

- (i) the Group will be able to complete the restructuring arising from the appointment of provisional liquidators and successfully negotiate and agree with the creditors to renew or extend the existing borrowings or complete debt financing to meet its liabilities as they fall due; and
- (ii) the Group will pro-actively to raise new fund to finance the working capital requirements of the Group.

The directors consider that after the restructuring, the Group will continue to meet in full its financial obligation as they fall due in the foreseeable future. Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements on the going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements, to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HKFRSs

(a) Application of new and revised HKFRSs

The Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning on 1 January 2020. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3 Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16 Property, plant and equipment: proceeds before intended use	1 January 2022
Amendments to HKAS 37 Onerous contracts – cost of fulfilling a contract	1 January 2022
Annual Improvements to HKFRSs 2018 – 2020 Cycle	1 January 2022
Amendments to HKAS 1 Classification of liabilities as current or non-current	1 January 2023
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Team Loan that contains a Repayment on Demand Clause	1 January 2023

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

4. SEGMENT INFORMATION

The Group has four operating segments as follows:

1. Car rental segment — primarily engages in the provision of car rental services;
2. Materials and other goods trading segment — primarily engages in the trading of materials and other goods;
3. Financing services and investments segment — primarily engages in money lending business through the provision of loans and financial investment holding; and
4. Others segment — engages in provision of other services, such as fund administration, public relations and property investment.

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

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

Revenue from major customers

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A	–	278,932
Customer B	–	190,354
Customer C	–	94,402
Customer D	–	66,214
Customer E	<u>5,500</u>	<u>–</u>

5. REVENUE

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue		
Contracts with customers within the scope of HKFRS 15:		
Sales of goods	9,334	632,540
Service income	1,002	1,526
Other sources:		
Car rental income	<u>13,968</u>	<u>20,252</u>
	<u>24,304</u>	<u>654,318</u>

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Time of revenue recognition:		
At a point in time	9,334	632,540
Over time	<u>1,002</u>	<u>1,526</u>
	10,336	634,066
Geographical market:		
The PRC	1,745	2,782
Hong Kong	<u>8,591</u>	<u>631,284</u>
	<u>10,336</u>	<u>634,066</u>

6. OTHER INCOME, GAINS AND LOSSES, NET

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other income		
Bank interest income	18	36
Other interest income	800	29,566
Waiver of amount due to a joint venture	48	1,765
Others	<u>1,495</u>	<u>641</u>
	<u>2,361</u>	<u>32,008</u>
Gains and losses, net		
(Loss)/gain on disposal of items of property, plant and equipment, net	(2,350)	1,084
Fair value gain/(loss) on investment property	1,552	(11,681)
Fair value loss on financial assets at FVTPL	(347,413)	(89,963)
Fair value gain on derivative financial instruments in relation to convertible bonds	1,430	6,210
Impairment of an unlisted fund investment	(10,941)	–
Gain on disposal of listed securities	–	881
Gain on termination of leases, net	1,662	–
Gain on disposal of subsidiaries	–	10,877
Loss on deemed disposal of subsidiaries	<u>(21,293)</u>	<u>–</u>
	<u>(377,353)</u>	<u>(82,592)</u>
	<u><u>(374,992)</u></u>	<u><u>(50,584)</u></u>

7. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on lease liabilities	471	614
Interest on bank and other borrowings	44,328	52,091
Interest on convertible bonds	75,255	105,765
Bank charges	<u>75</u>	<u>133</u>
	<u><u>120,129</u></u>	<u><u>158,603</u></u>

8. LOSS BEFORE TAX

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost of inventories sold	9,162	601,436
Depreciation on property, plant and equipment (<i>note a</i>)	6,793	7,252
Depreciation on right-of-use assets (<i>note a</i>)	1,504	140
Auditor's remuneration		
— audit services	1,000	2,510
— non-audit services	118	379
Employee benefit expenses (including directors' emoluments):		
Wages, salaries allowances, bonuses and benefits in kind	15,098	27,819
Pension scheme contributions (defined contribution schemes) (<i>note b</i>)	1,019	2,103
	<u>16,117</u>	<u>29,922</u>
Exchange losses, net	3	116
Research expenses	–	2,501
Fair value gain on derivative financial instruments in relation to convertible bonds	(1,430)	(6,210)
Fair value loss on financial assets at FVTPL	347,413	89,963
Fair value (gain)/loss on investment property	(1,552)	11,681
Impairment of an unlisted fund investment	10,941	–
Allowances for ECL on trade receivables	347,104	383,708
Reversal of allowance for ECL on trade receivables	(400)	(85,970)
Allowances for ECL on other receivables	1,600	86,055
Reversal of allowance for ECL on other receivables	–	(1,014)
Provision for financial guarantee	7,200	25,800
Provision for a claim (<i>note c</i>)	200,000	–
Impairment of right-of-use assets	300	–
Impairment of intangible assets (<i>note c</i>)	9,166	–
Impairment of amount due from an associate	–	8,783
Write-off of inventories (<i>note c</i>)	3,320	35
Write-off of property, plant and equipment (<i>note c</i>)	10	661
Write-off of other receivables	–	1,481
Gain on disposal of subsidiaries	–	(10,877)
Loss on deemed disposal of subsidiaries	21,293	–
Loss/(gain) on disposal of items of property, plant and equipment, net	2,350	(1,084)
Gain on disposal of listed securities	–	(881)
Gain on termination of leases, net	(1,662)	–
	<u><u>(1,662)</u></u>	<u><u>–</u></u>

Notes:

- (a) Depreciation on property, plant and equipment and right-of-use assets of approximately HK\$6,467,000 (2019: approximately HK\$4,522,000) and HK\$361,000 (2019: approximately HK\$72,000) are included in cost of sales and services rendered.
- (b) As at 31 December 2020 and 2019, the Group had no forfeited contributions available to reduce its contributions to its pension schemes in future years.
- (c) The amounts are included in other expenses.

9. INCOME TAX CREDIT/(EXPENSE)

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current — Elsewhere		
Under/(over) provision in prior years	121	(20)
Deferred tax	<u>(43,073)</u>	<u>14,370</u>
Income tax (credit)/expense	<u><u>(42,952)</u></u>	<u><u>14,350</u></u>

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

PRC Enterprise Income Tax has been provided at a rate of 25% (2019: 25%).

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

Under the PRC tax law, dividends received by foreign investors from its investment in foreign-invested enterprises in respect of its profits earned since 1 January 2009 are subject to withholding tax at a rate of 10%.

No provision of Hong Kong profit tax, PRC Enterprise Income Tax and any other tax has been provided in the consolidated financial statement (2019: Nil).

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss before tax	<u>(1,107,371)</u>	<u>(706,724)</u>
Tax at Hong Kong Profits Tax rate of 16.5% (2019: 16.5%)	(182,716)	(116,609)
Effect of difference in tax rate/tax rule for specific jurisdiction or enacted by local tax authority	(15,953)	(6,864)
Losses attributable to joint ventures and an associate	180	830
Utilisation of tax losses prior not recognised	(79)	–
Income not subject to tax	(681)	(35,786)
Expenses not deductible for tax	76,456	40,269
Tax losses not recognised	79,728	132,911
Under/(over) provision in prior years	121	(20)
Others	<u>(8)</u>	<u>(381)</u>
Income tax (credit)/expense	<u>(42,952)</u>	<u>14,350</u>

10. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK\$1,055,985,000 (2019: approximately HK\$691,607,000) and the weighted average number of ordinary shares, after the share consolidation becomes effective on 26 June 2020 and the right issue of new shares completes on 30 July 2020, of 341,399,481 (2019: (restated) 340,537,522) 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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss		
Loss for the year attributable to owners of the Company used in the basis and diluted loss per share calculation	<u>(1,055,985)</u>	<u>(691,607)</u>
	Number of shares	
	2020	2019
		(restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation	<u>341,399,481</u>	<u>340,537,522</u>

For the purpose of calculation of basic loss per share for the years ended 31 December 2020 and 2019, The share consolidation of the Company being effective on 30 July 2020 was deemed to be effective throughout the years ended 31 December 2020 and 2019. Accordingly, the weighted average number of ordinary shares of the Company in issue during the year ended 31 December 2019 were adjusted to reflect the share consolidation.

11. FINANCIAL ASSETS AT FVTPL

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current financial assets designated at FVTPL		
An unlisted fund investment (<i>note b</i>)	–	10,941
Unlisted equity investments (<i>note c</i>)	<u>58,632</u>	<u>403,363</u>
	<u>58,632</u>	<u>414,304</u>
Current financial assets designated at FVTPL		
An acquired convertible bond (<i>note a</i>)	<u>–</u>	<u>39,091</u>

Notes:

(a) An acquired convertible bond

On 13 April 2017, the Company subscribed for a convertible bond (“**Acquired Convertible Bond**”) with a principal amount of HK\$40,000,000 which was issued by an independent third party incorporated in Hong Kong (the “**Bond Issuer**”). The maturity date of the Acquired Convertible Bond is 18 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.

Upon its maturity date, none of the principal amount of the HK\$40,000,000 of the Acquired Convertible Bond has been converted pursuant to the terms and conditions of the Acquired Convertible Bonds. The Bond Issuer fails to repay the outstanding principal amount and the interest accrued despite receiving repeated notices and demand letters from the Group. A winding up petition was filed against the Bond Issuer in the High Court of Hong Kong on 15 June 2020. As of 31 December 2020, the legal action is still in progress and no agreement was being reached between the parties and the outstanding amount of the Acquired Convertible Bond was being reclassified as “Prepayments, deposits and other receivables” in the consolidated financial statement of the Group.

(b) An unlisted fund investment

On 26 May 2018, the Group subscribed for the class C shares issued by an unlisted investment fund at a cost of HK\$100,000,000.

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.

The unlisted investment fund was being put into official liquidation by shareholders on 10 November 2020. Having informed by the joint official liquidators appointed on 9 December 2020 that the assets held by the unlisted investment fund is of low to no realisable value, the balance of the investment brought forward from last year was impaired in the current year.

(c) Unlisted equity investments

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Unlisted equity investments (note iv)		
Zhongxin (Heilongjiang) Internet Microfinance Co., Ltd.* <i>(note i)</i>	4,744	165,390
Zuoshishi Technology Service (Beijing) Company Limited* <i>(note ii)</i>	43,266	201,374
Spring Power Holdings Limited <i>(note iii)</i>	10,622	36,599
	<u>58,632</u>	<u>403,363</u>

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

- (i) As at 31 December 2020 and 2019, the Group has 2% of the issued share capital of an unlisted company incorporated in the PRC principally engaged in internet microfinance business.

In the current year, the management engaged an independent qualified professional valuer to determine the fair value of this investment applying the Asset-based Approach. Under the Asset-based Approach, the fair value of this investment refers to the fair values of various assets and liabilities on the statement of financial position of the investment as at the valuation date with reference to publicly available information of comparable companies.

- (ii) As at 31 December 2020 and 2019, the Group has 11% of the issued share capital of an unlisted company incorporated in the PRC principally engaged in the innovation service for start-up technology companies and related investment activities.

In the current year, the management engaged an independent qualified professional valuer to determine the fair value of this investment applying the income approach. The income approach measures the value of this investment by the present value of its future economic benefits.

- (iii) As at 31 December 2020 and 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 manufacturing of humanlike robots.

In the current year, the management engaged an independent qualified professional valuer to determine the fair value of this investment. The valuer adopted the market approach to determine the valuation parameters derived from market prices and financial data of listed companies in a similar business and with a similar business model as that of the company being valued for the equity interest in this unlisted company.

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

12. TRADE RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	833,829	834,321
Less: Allowance for ECLs	<u>(832,873)</u>	<u>(485,916)</u>
	<u>956</u>	<u>348,405</u>

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

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

As at 31 December 2020, certain of the Group's other borrowings were secured by the Group's pledge trade receivables of gross amount approximately HK\$600,639,000 (2019: approximately HK\$600,639,000).

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 90 days	195	587
90 to 180 days	761	1,229
Over 180 days	<u>–</u>	<u>346,589</u>
Total	<u>956</u>	<u>348,405</u>

13. LOAN RECEIVABLE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loan receivable	15,629	15,629
Less: Allowance for ECLs	<u>(15,629)</u>	<u>(15,629)</u>
Current portion	<u><u>–</u></u>	<u><u>–</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 2020 and 2019, 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 2020, the allowance for ECLs is related to an individually impaired loan receivable of the independent borrower of approximately HK\$15,629,000 (2019: approximately HK\$15,629,000) that default its repayment due on 21 March 2019.

14. TRADE PAYABLES

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 30 days	3,387	156
31 to 60 days	–	29
Over 60 days	<u>386</u>	<u>59</u>
	<u><u>3,773</u></u>	<u><u>244</u></u>

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

15. CONVERTIBLE BONDS

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

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

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

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

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

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

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

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

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

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

After the Share Consolidation being effective on 26 June 2020, there are outstanding convertible bonds upon the full conversion of which a total of 92,857,142 new consolidated ordinary shares may be allotted and issued to the relevant bondholders. The Share Consolidation would lead to adjustment to the conversion price of the convertible bonds and the number of consolidated shares which may fall to be issued upon exercise of the conversion rights attaching to the convertible bonds, such adjustment to be made in accordance with the terms and conditions of the convertible bonds and the Listing Rules.

Owing to the fact that 2018 CB and 2020 CB were being expired on 16 May 2020 and 30 August 2020 respectively, the outstanding balance of both 2018 CB and 2020 CB has been re-classified as “Interest-bearing bank and other borrowings” in the consolidated financial statements of the Group.

Save as disclosed above, the Company has no outstanding options, warrants or other securities in issue which are convertible into or giving rights to subscribe for, convert or exchange into, any ordinary shares, as the case may be.

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

	Liability components <i>HK\$'000</i>	Derivative components <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019	345,445	6,620	352,065
Movements upon modification of 2019 CB	(1,020)	1,020	–
Interest expenses	105,765	–	105,765
Interest paid	(13,000)	–	(13,000)
Fair value gain	–	(6,210)	(6,210)
At 31 December 2019 and 1 January 2020	437,190	1,430	438,620
Interest expenses	75,256	–	75,256
Fair value gain	–	(1,430)	(1,430)
Reclassified to other borrowings upon maturity	(368,466)	–	(368,466)
At 31 December 2020	<u>143,980</u>	<u>–</u>	<u>143,980</u>
Represented by:			
At 31 December 2020			
Current portion	<u>143,980</u>	<u>–</u>	<u>143,980</u>
At 31 December 2019			
Current portion	<u>437,190</u>	<u>1,430</u>	<u>438,620</u>

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

	2020	2019
Weighted average share price	0.136	0.013
Weighted average exercise price	2	0.1–0.35
Expected volatility	84%	79.5%–124.08%
Expected life	1	2–3
Risk free rate	0.05%	1.79%–2.07%

16. FINANCIAL GUARANTEE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Fair value of financial guarantee	<u>33,000</u>	<u>25,800</u>

Note:

As at 31 December 2020, the Group provided a corporate guarantee in favour of an independent third party in respect of a loan facility granted to an associate of the Group up to an aggregate amount of approximately HK\$204,960,000 (2019: approximately HK\$204,960,000), of which approximately HK\$36,166,000 (2019: approximately HK\$29,900,000) has been utilised.

17. SHARE CAPITAL

Shares:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Authorised:		
1,000,000,000 (2019: 20,000,000,000) ordinary shares of HK\$0.20 (2019: HK\$0.01) each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
342,572,857 (2019: 6,810,750,454) ordinary shares of HK\$0.20 (2019: HK\$0.01) each	<u>68,515</u>	<u>68,108</u>

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

	Number of ordinary shares '000	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2019, 31 December 2019 and 1 January 2020	6,810,750	68,108	1,059,713	1,127,821
Share consolidation	(6,470,212)	–	–	–
Rights issue	<u>2,035</u>	<u>407</u>	<u>–</u>	<u>407</u>
At 31 December 2020	<u>342,573</u>	<u>68,515</u>	<u>1,059,713</u>	<u>1,128,228</u>

On 30 July 2020, the Company issued and allotted 2,035,335 ordinary shares of HK\$0.20 each to qualifying shareholders pursuant to the rights issue on the basis of one rights share for every five shares held by members on the register as at 30 June 2020 at an issue price of HK\$0.20 per rights share for a total gross cash consideration of HK\$407,000.

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

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

EXTRACT OF THE AUDITOR'S REPORT

The following is the extract of the independent auditor's report from the auditor on the Group's consolidated financial statements for the year ended 31 December 2020:

Disclaimer for Opinion

We were engaged to audit the consolidated financial statements of China Wood International Holding Co., Limited and its subsidiaries which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material uncertainties relating to going concern

We draw attention to note 2 to the consolidated financial statements which indicate that the Group incurred a loss of approximately HK\$1,064,419,000 for the year ended 31 December 2020 and as at 31 December 2020, the Group had net current liabilities and net liabilities of approximately HK\$1,089,512,000 and HK\$986,499,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon the outcomes of (i) the restructuring of the Group as set out in note 2 to the consolidated financial statements to renew or extend the existing borrowings or complete debt financing to meet its liabilities as they fall due, and (ii) new fund is able to be raised to a level sufficient to finance the working capital requirements of the Group. The consolidated financial statements do not include any adjustments that would result from the failure to meet its financial obligations in the foreseeable future. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements. However, in view of the extent of the uncertainty relating to the outcomes of the Group's funding activities, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Negative sentiments in the market during year 2020 is more than a normal recession, and it will take time for the worldwide economic activities to resume to the pre-crisis level. During the first quarter of 2020, the previous management who has managed the Group for the past few years encountered serious difficulties in reviving the then on-going business activities of the Group. A new management team was introduced since second quarter of 2020 and attempted to get control of the Group's various existing business segments operating in various locations while also tried to launch other new trading business including wine trading and wood business. As a result of which, the name of the Company and several of the operating subsidiaries were changed from "HongDa" to "China Wood" in mid 2020 to reflect the Group's new direction.

The Group intends to venture into an eco-friendly industry for the benefit and well-being of the society, all mankind and their descendants. The protection of forests and water is believed to be of utmost importance to the struggle for survival of mankind against extreme climate changes. For that reason, the Group believes by taking part in the development of an environment-focused wood industry would be meaningful and full of business opportunities in the future of the society.

However, the weakened economy under the pandemic of COVID-19 has brought about enormous obstacles to not only the existing business but also the preparation of those new trading businesses and the commencement of wood business in China was hindered by lock down, social distancing and travel restrictions in China. Consequently, the business operation and the corresponding growth and development was limited in year 2020.

During the second half of 2020, with the COVID-19 having been contained in China, there has been a rebound of the business activities and revenue of the Group. In late 2020, the current management team lead by Mr. Lyu NingJiang, the new Chairman and Chief Executive Officer, who has a solid record of managing wood business in China, and Mr. Hu YongGang, the new Non-executive Director of the Company, who is the founder of a car rental business in Beijing, was on board and the Company has now re-engineered its business recovery plan for the time ahead.

Car Rental Business

The car rental business has been one of the core businesses of the Group since year 2014. 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 car rental services business in China. For the year ended 31 December 2020, the car rental segment recorded a revenue of approximately HK\$14.0 million (2019: approximately HK\$20.3 million) and a gross profit of approximately HK\$3.2 million (2019: approximately HK\$7.6 million), representing a gross profit margin of approximately 22.9% (2019: approximately 37.4%). Although the economic environment in China is still under negative influence from the US-Sino trade war and the COVID-19 pandemic, the Group continued to strive to maintain its capacity and market share in China. To tackle for the new business environment in 2021, the existing work force of car rental segment in Beijing is undergoing an internal restructuring exercise in early 2021.

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

Trading of materials and other goods (including bulk stock materials and other goods)

In year 2020, the macroeconomy around the world continued to fill with uncertainties and economic upheaval, a number of participants in the bulk stock materials trading market including the major customers of the Group in the past few years have either suspend operations or ceased business. Throughout the year 2020, the Company has continued to look for potential customers with stronger financial backing in the materials trading market. However, the Group has not identified any potential customers who would meet the Group's stringent criteria and as a result no new order was concluded and the Group recorded nil from the materials trading business. To strive for the best interests of its shareholders, the Group managed to diversify into the business of trading alcoholic drinks in Hong Kong together with the trading of timber products in China. For the year ended 31 December 2020, the Group's trading segment recorded a revenue of approximately HK\$9.3 million (2019: approximately HK\$632.5 million) and a gross profit of approximately HK\$0.2 million (2019: approximately HK\$31.2 million), representing a gross profit margin of approximately 2.2% (2019: approximately 4.9%).

Financing Services and Investment Business (including fund management)

During the first half of year 2020, the management of the Group decided to terminate operations of its wholly-owned subsidiary in Hong Kong, HongDa Securities Limited, and deregistered with the Securities and Futures Commission (SFC) as a Type 1 licensed corporation. In the second half of year 2020, the Board has decided to suspend the Group's money lending business and the Group has subsequently withdrawn its annual renewal application to the Hong Kong Money Lender Registrar in November 2020. The Group's financing services business in China is also under stringent cost control and conservative business strategies. For the year ended 31 December 2020, the Group's financing services and others segments (including fund management activities in China which the Group started in year 2017) recorded a revenue of approximately HK\$1.0 million (2019: approximately HK\$1.5 million). For the other investment projects held by the Group, it is expected that the market outlook will remain challenging and demanding. The competitive and volatile operating environment in the financial industry in China will continue to exert pressure on the market. The Group will continue to adopt prudent capital management and liquidity risk management to preserve adequate buffer to meet the funding requirements of its core business segments mentioned above.

FUTURE OUTLOOK

Subsequent to the change in administration in the United States in January 2021, the world is still suffering from the uncertainties and pessimistic sentiments brought about by the extended trade war and political disputes between the two super powers and the continuous lockdown of businesses around the world as a result of the COVID-19 pandemic. All the above factors kept on dampening the livelihood of everyone around the World.

The introduction of newly developed vaccine in the first quarter of year 2021 is finally sowing seeds of hope to all the mankind. Together with the budgetary expansion policies of different governments around the World, people are now more eager to pick up their scattered lives again and the market starts to expect substantial growth in the third and fourth quarter of year 2021.

Looking forward, the Group expects that the market in 2021 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.

FINANCIAL RESTRUCTURING

Appointment of the Joint Provisional Liquidators for restructuring purpose in Cayman Islands

Having explored different options to restructure the debts of the Company, the Board decided to implement a management led restructuring under a court-supervised provisional liquidation regime pursuant to the laws of the Cayman Islands, commonly known as a “light touch” provisional liquidation, which provides a statutory moratorium prohibiting the commencement or continuance of any proceedings against the Company without the leave of the Grand Court of the Cayman Islands (the “**Cayman Court**”) in the Cayman Islands.

Accordingly, in order to facilitate the Company’s financial restructuring, a winding up petition together with an application for the appointment (the “**JPL Application**”) of joint and several provisional liquidators of the Company (for restructuring purposes) (the “**JPLs**”) on a light touch approach for restructuring purposes was presented and filed with the Cayman Court by the Company.

The JPL Application was heard before the Cayman Court on 2 February 2021 (Cayman Islands time). The Cayman Court made the orders as sought by the Company under the JPL Application, inter alia, (i) Osman Mohammed Arab and Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited, and Martin Nicholas John Trott of R&H Restructuring (Cayman) Ltd., were appointed as joint provisional liquidators (“**JPLs**”) of the Company on a light touch approach for restructuring purpose (the “**Cayman Court Order**”). Please refer to the announcements of the Company dated 2 February 2021 and 5 February 2021 for details of the Cayman Court Order; and (ii) a letter of request (the “Letter of Request”) was subsequently issued on 18 February 2021 by the Cayman Court to the High Court of Hong Kong to request, among other things, recognition of the Cayman Court Order and the appointment of the JPLs such that the Cayman Court Order shall be treated in all respects in the same manner as if they have been made by the High Court of Hong Kong.

FINANCIAL REVIEW

Results of the group

Revenue

During the year ended 31 December 2020, the Group recorded a revenue of approximately HK\$24.3 million, which represented a decrease of approximately 96.3% as compared to the revenue of approximately HK\$654.3 million as recorded for the year ended 31 December 2019. The decrease was mainly resulted from the decrease in materials and other goods trading volume from approximately HK\$632.5 million for the year ended 31 December 2019 to approximately HK\$9.3 million for the year ended 31 December 2020.

Cost of sales and services rendered

Cost of sales and services rendered of the Group declined by approximately 96.8% from approximately HK\$614.3 million for the year ended 31 December 2019 to approximately HK\$19.9 million for the year ended 31 December 2020. The decrease was mainly attributable to the decrease in sales volume of materials trading during the year.

Gross profit and margin

The Group recorded a gross profit of approximately HK\$4.4 million for the year ended 31 December 2020, representing a decrease of approximately 89.0% as compared to the gross profit recorded in the prior year. The gross profit margin increased by approximately 12.0% from 6.1% for the year ended 31 December 2019 to 18.1% for the year ended 31 December 2020.

Other income, gains and losses, net

Other income, gains and losses, net of the Group representing net other losses increased by approximately 641.1%, from net losses of approximately HK\$50.6 million for the year ended 31 December 2019 to net losses of approximately HK\$375.0 million for the year ended 31 December 2020. The increase was primarily due to the net effect of the (i) fair value loss on financial assets at FVTPL of approximately HK\$347.4 million (2019: approximately HK\$90.0 million); (ii) loss on disposal of items of property, plant and equipment, net approximately HK\$2.4 million (2019: gain on disposal of items of property, plant and equipment, net approximately HK\$1.1 million); (iii) fair value gain on derivative financial instruments in relation to convertible bonds of approximately HK\$1.4 million (2019: approximately HK\$6.2 million); and (iv) loss on deemed disposal of subsidiaries of approximately HK\$21.3 million (2019: nil).

Selling and distribution expenses

Selling and distribution expenses of the Group decreased from approximately HK\$7.9 million during the year ended 31 December 2019 to approximately HK\$2.9 million for the year ended 31 December 2020. The stable level of expenses was mainly due to decreasing PRC selling and distribution staff costs incurred in facilitating business operations.

Administrative expenses

Administrative expenses of the Group decreased by approximately 55.6% from approximately HK\$100.5 million for the year ended 31 December 2019 to approximately HK\$44.6 million for the year ended 31 December 2020. 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\$55.9 million to utilise resources in a more efficient manner.

Finance costs

Finance costs decreased from approximately HK\$158.6 million for the year ended 31 December 2019 to approximately HK\$120.1 million for the year ended 31 December 2020. The decrease was mainly due to no additional interest incurred on convertible bonds as compared with additional interests charged for the renewal of convertible bonds during year 2019.

Income tax expense

The Group recorded an income tax credit of approximately HK\$43.0 million for the year ended 31 December 2020 (2019: income tax expense of approximately HK\$14.4 million), which was mainly due to the net effect of (i) the derecognition of deferred tax liabilities as a result of fair value losses on financial assets at FVTPL and loss on deemed disposal of subsidiaries.

Significant investments held

During the year ended 31 December 2020 and 2019, the Group had the following significant investments held with a value of 5 per cent. or more of the Group's total assets which were classified as financial assets at fair value through profit or loss:

Name of the investments	Investment costs (HK\$'000)	Fair value	Percentage	Performance/ Change in	Size as	Total amount
		as at 31 December 2020 (HK\$'000)	of investments held as at 31 December 2020 (%)	fair value for the year ended 2020 (HK\$'000)	compared to the Group's total assets as at 31 December 2020 (%)	of dividends received for the year ended 2020 (HK\$'000)
Zhongxin (Heilongjiang) Internet Microfinance Co., Ltd.	111,750	4,744	2	(160,646)	3	–
Zuoshishi Technology Service (Beijing) Company Limited	67,050	43,266	11	(158,108)	27	–
Spring Power Holdings Limited	23,474	10,622	3	(25,977)	7	–

Name of the investments	Investment costs (HK\$'000)	Fair value	Percentage	Performance/ Change in	Size as	Total amount
		as at 31 December 2019 (HK\$'000)	of investments held as at 31 December 2019 (%)	fair value for the year ended 2019 (HK\$'000)	compared to the Group's total assets as at 31 December 2019 (%)	of dividends received for the year ended 2019 (HK\$'000)
Zhongxin (Heilongjiang) Internet Microfinance Co., Ltd.	111,750	165,390	2	(9,954)	14	–
Zuoshishi Technology Service (Beijing) Company Limited	67,050	201,374	11	(69,613)	18	–
Spring Power Holdings Limited	23,474	36,599	3	(200)	3	–

Description of the investments

Zhongxin (Heilongjiang) Internet Microfinance Co., Ltd. is an unlisted company established in the PRC which principally engaged in internet microfinance business. The industry of this company was under stringent government reformation policies in China during the year and will have to open up to greater regulation in future if the company intends to continue its existing countrywide microfinance business. Together with the financial difficulties faced by a subsidiary and the uncertainty in the debt collection rate, the valuation of this investment has to reflect a substantial downturn to the future growth in value.

Zuoshishi Technology Service (Beijing) Company Limited is an unlisted company established in the PRC which principally engaged in the provision of innovation service for start-up technology companies and related investment activities. The capital market in China has experienced high volatility during the year as being affected by the global COVID-19 pandemic and similar fluctuations appeared in the capital market in US and Europe. GDP growth in China was significantly slowed down in year 2020 which has hindered the future outlook of the business sector and also causing notable downward pressure to the investment's future returns and as a result to the valuation conducted by independent valuer.

Spring Power Holdings Limited is an unlisted company established in BVI that controls a group of companies principally engaged in development and manufacturing of human like robots. The financial performance of this company has experienced downward adjustments for two consecutive years. Consistent drop in turnover while inventory being kept at a high level has significantly dampened the expectation to its future profitability and consequently affected the valuation conducted by independent valuer.

As at 31 December 2020 and 2019, none of each individual underlying investment of the above mentioned investments constitutes 5% or above of the total assets of the Group.

Change of Company name

Pursuant to a special resolution passed at the annual general meeting of the Company held on 23 June 2020, the Shareholders have approved to change the English name of the Company from “HongDa Financial Holding Limited” to “China Wood International Holding Co., Limited” and to change the dual foreign name in Chinese of the Company from “ 弘達金融控股有限公司” to “ 中木國際控股有限公司”.

Share Consolidation

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 23 June 2020, the Company implemented the share consolidation of every twenty shares into one consolidated share (the “**Share Consolidation**”). The Share Consolidation were completed on 26 June 2020.

Rights Issue

Subject to the Share Consolidation becoming effective, the Company proposed on 15 May 2020 to implement the rights issue of new consolidated shares on the basis of one (1) new consolidated share for every five (5) new consolidated shares held at the close of business on 8 July 2020 (being the record date) at the subscription price of HK\$0.20 per share (the “**Rights Issue**”). On 30 July 2020, a total of 2,035,335 shares have been issued under the rights issue. Reference is made to (i) the announcements of the Company dated 15 May 2020 and 30 July 2020; and (ii) the prospectus of the Company dated 9 July 2020 in relation to, amongst others, the Rights Issue.

Capital Reduction and Share Sub-Division

Pursuant to a special resolution passed at the extraordinary general meeting of the Company held on 23 June 2020, the Shareholders have approved to have i) the issued share capital of the Company be reduced by reducing the par value of each issued new consolidated share from HK\$0.20 to HK\$0.01 (the “**Capital Reduction**”) through a cancellation of the paid-up capital of the Company to the extent of HK\$0.19 on each of the issued consolidated shares; ii) immediately following the Capital Reduction, each of the authorised but unissued consolidated shares of the Company with par value of HK\$0.20 each be subdivided into twenty (20) consolidated shares with par value of HK\$0.01 each (the “**Share Sub-division**”)

Subsequently, on 18 December 2020, the Company announced that as certain conditions precedent for the Capital Reduction cannot be fulfilled in light of the Company has reported a negative net assets value as at 30 June 2020 as disclosed in the interim report of the Company for the six months ended 30 June 2020, which would cause the application to the Court for granting an order confirming the Capital Reduction to become unduly complicated and costly, the Company would therefore not proceed with the Capital Reduction and the Share Sub-Division.

Enforcement of share charge by the holder of US\$30,000,000 senior guaranteed and secured fixed rate note

On 2 September 2020, the Company was informed by the registered agent of its special purpose entity that the 51% charged equity interests of the Group's investment project in the USA held by it was being enforced by the holder of the related US\$30,000,000 senior guaranteed and secured fixed rate note. The financial implication of such an enforcement of share charge has led to the deconsolidation of all assets and liabilities held under that investment project in the USA from the consolidated financial statements of the Group. Having considered the collectability of the amount due to the Group as of the date of the enforcement, approximately HK\$21.3 million loss was recorded for the year ended 31 December 2020 as loss on deemed disposal of subsidiaries. Details of the enforcement has been disclosed in the announcements of the Company dated 4 September 2020 and 20 November 2020.

Indemnification Claims from an unlisted investment fund

On 10 November 2020, an unlisted investment fund invested by the Group was placed into official liquidation. Subsequently, the Company received the request from the joint official liquidators so appointed to handle the liquidation of the unlisted investment fund about the Company's obligation to indemnify the other investors to such unlisted investment fund at the preliminary total amount of HK\$200.0 million. The financial implication of such indemnification claims was reflected as other expenses to the consolidated financial statements of the Group for the year ended 31 December 2020. Details of the indemnification claims has been disclosed in the announcement of the Company dated 31 December 2020.

Liquidity and Financial Position

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets	59,702	433,266
Current liabilities	1,149,214	1,063,556
Current ratio	<u>0.05</u>	<u>0.41</u>

At 31 December 2020, cash and cash equivalents of the Group amounted to approximately HK\$4.8 million (2019: approximately HK\$14.0 million). As at 31 December 2020, the Group had interest-bearing bank and other borrowings amounted approximately HK\$638.8 million (2019: approximately HK\$500.8 million) and the Group also has liability component of convertible bonds of approximately HK\$144.0 million (2019: approximately HK\$437.2 million).

On the basis of the considerations as disclosed in the note 2 of the consolidated financial statements of the Group for the year ended 31 December 2020, 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

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total interest-bearing bank and other borrowings and liability components of convertible bonds	782,823	938,025
Total assets	163,211	1,150,016
Gearing ratio	<u>479.6%</u>	<u>81.6%</u>

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

As at 31 December 2020, 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\$638.8 million (2019: approximately HK\$484.1 million) and HK\$Nil (2019: approximately HK\$16.7 million), respectively, of which bank and other borrowings of HK\$Nil (2019: approximately HK\$233.6 million) and approximately HK\$57.6 million (2019: approximately HK\$58.8 million) were denominated in US dollar and Renminbi respectively.

As at 31 December 2020, the maturity profile of the liability components of the Group's issued convertible bonds falling due within one year amounted to approximately HK\$144.0 million (2019: approximately HK\$437.2 million).

Capital Structure

The capital of the Company comprises only ordinary shares. As at 31 December 2020 after the Share Consolidation and the Right Issue becomes effective, the total number of the ordinary shares of the Company was 342,572,857 (2019: (restated) 340,537,522) (with an aggregate nominal value of HK\$68,515,000 (2019: HK\$68,108,000)).

Charges on the Group's Assets

At 31 December 2020, certain of the Group's other borrowings were secured by the Group's trade receivables of approximately HK\$600.6 million (2019: approximately HK\$600.6 million) and investment property of HK\$Nil (2019: approximately HK\$237.7 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 2020 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 2020, the contingent liabilities of the Group was mainly related to the following other litigations:

- 1) On 21 April 2020, a writ of summons was issued by an independent third party in Beijing, China as plaintiff against a wholly owned subsidiary of the Group namely (北京宜乘企業管理有限公司) as defendant (the “**Action 1**”). The plaintiff claimed for the repayment of principal and the accrued interests of a loan purportedly owed by the defendant to the plaintiff in the total amount of approximately RMB59.5 million since 2014 (the “**Purported Loan**”). The defendant has denied the existence of the Purported Loan and has requested forensic checks to be conducted to the loan agreement produced by the Plaintiff to the People’s Court in Chaoyang District, Beijing.

The Company has engaged a competent legal advisor to act for its interests in respect of the Action 1 and the court hearing is still in progress as of the date of this announcement.

- 2) On 11 November 2020, a writ of summons was issued by an independent third party in Hainan, China as plaintiff against a wholly owned subsidiary of the Group namely (弘深希望科技(珠海)有限公司) as defendant (the “**Action 2**”). The plaintiff claimed for the subrogation rights to the outstanding principal and accrued interest of a loan between (弘深希望科技(珠海)有限公司) as borrower and another independent third party as lender amounted to approximately RMB54.7 million. There is no direct legal connections between the plaintiff and the defendant.

The Company has engaged a competent legal advisor to act for its interests in respect of the Action 2 and the court hearing in Zhuhai Hengqin New District People’s Court is still in progress as of the date of this announcement.

- 3) On 20 October 2020, an independent third party in Shenzhen, China as claimant filed an arbitration request to China International Economic and Trade Arbitration Commission in Beijing for a refund of shares subscription money together with compensation of RMB25.5 million from (弘深希望科技(珠海)有限公司) as respondent (the “**Action 3**”).

The Company has engaged a competent legal advisor to act for its interests in respect of the Action 3 and the arbitration process has not yet commenced as of the date of this announcement.

- 4) As at 31 December 2020, the joint official liquidators appointed by the Grand Court of the Cayman Islands to handle the liquidation of an unlisted investment fund requested the Company to fulfil its obligation to indemnify the other investors of such unlisted investment fund at the preliminary total amount of HK\$200 million pursuant to the requirement of the placing memorandum of the fund. The total amount of the indemnity claim thereof would include any outstanding fixed returns entitled by the other investors on top of the preliminary amount currently requested.

Capital Commitments

As at the end of the reporting period, the Group had outstanding capital commitments amounted to approximately HK\$35.8 million (2019: approximately HK\$89.4 million).

EMPLOYEES AND EMOLUMENT POLICY

At 31 December 2020, the Group employed a total of 29 (2019: 42) employees. Total costs including the emoluments of the directors of the Company, amounted to approximately HK\$16.1 million for the year (2019: approximately HK\$29.9 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 2020. As at 31 December 2020, 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 the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2020 (2019: 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 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. Sin Pui Ying, Mr. Zhao XianMing and Mr. Fung Tze Wa were unable to attend the annual general meeting of the Company held on 23 June 2020 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 resigned on 3 December 2020) and also both assumed by Mr. Lyu NingJiang (appointed on 3 December 2020), and the Board believes that the roles of both Chairman and CEO vested in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

Since 1 January 2021, the audit committee of the Company (the “**Audit Committee**”) comprises of two independent non-executive Directors, namely Mr. Zhao Xianming (chairman) and Mr. An Dong. The primary duties of the Audit Committee are to supervise the internal control policies, the financial reporting systems and procedures of the Company, to review the consolidated financial statements and reports of the Group, and to review the terms of engagement and scope of audit work of the external auditors. The consolidated financial statements and this annual results announcement of the Group for the year ended 31 December 2020 have been reviewed by the Audit Committee.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group's independent auditor, McMillan Woods (Hong Kong) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2020. The work performed by McMillan Woods (Hong Kong) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently, no assurance has been expressed by McMillan Woods (Hong Kong) CPA Limited in this announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company (www.chinawoodint.com.hk) and the Stock Exchange (www.hkex.com.hk). The annual report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and available on the websites of the Company and the Stock Exchange within the prescribed period.

By order of the Board

China Wood International Holding Co., Limited

(Joint Provisional Liquidators appointed)

(For restructuring purposes only)

Lyu NingJiang

Chairman and Executive Director

Hong Kong, 29 March 2021

As at the date of this announcement, the Board comprises of Mr. Lyu NingJiang (Chairman and CEO) as executive director, Mr. Hu YongGang as non-executive director; and Mr. Zhao XianMing and Mr. An Dong as independent non-executive directors.