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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

**UNAUDITED INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	9,732	643,085
Gross profit	1,956	33,174
Loss for the period	(100,447)	(185,926)
Total comprehensive loss for the period	(99,039)	(184,618)

The board of directors (the “**Board**”) of HongDa Financial Holding Limited (the “**Company**”), together with its subsidiaries (the “**Group**”), hereby presents the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2020 (the “**Reporting Period**”) together with the comparative unaudited figures for the six months ended 30 June 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

		Six months ended 30 June	
	<i>Notes</i>	2020	2019
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
REVENUE	4	9,732	643,085
Cost of sales and services rendered		<u>(7,776)</u>	<u>(609,911)</u>
Gross profit		1,956	33,174
Other income and gains, net		2,790	24,260
Allowances for expected credit losses (“ECLs”) on trade and other receivables, net		(2,899)	(92,119)
Selling and distribution expenses		(2,861)	(4,761)
General and administrative expenses		(33,605)	(53,809)
Other expenses		(104)	(943)
Finance costs	5	(64,928)	(77,206)
Share of results of:			
Joint ventures		(816)	3,599
An associate		<u>–</u>	<u>(4,480)</u>
LOSS BEFORE TAX	6	(100,467)	(172,285)
Income tax expense	7	<u>20</u>	<u>(13,641)</u>
LOSS FOR THE PERIOD		<u>(100,447)</u>	<u>(185,926)</u>
Attributable to:			
Ordinary equity holders of the Company		(87,535)	(173,663)
Non-controlling interests		<u>(12,912)</u>	<u>(12,263)</u>
		<u>(100,447)</u>	<u>(185,926)</u>
		<i>HK cents</i>	<i>HK cents</i>
			(restated)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY FOR THE PERIOD	9		
Basic		<u>(25.71)</u>	<u>(51.00)</u>
Diluted		<u>(25.71)</u>	<u>(51.00)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	<u>(100,447)</u>	<u>(185,926)</u>
OTHER COMPREHENSIVE INCOME		
Exchange differences:		
Exchange differences arising on translation of foreign operations	<u>1,408</u>	<u>1,308</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(99,039)</u>	<u>(184,618)</u>
Attributable to:		
Ordinary equity holders of the Company	<u>(86,127)</u>	<u>(172,398)</u>
Non-controlling interests	<u>(12,912)</u>	<u>(12,220)</u>
	<u>(99,039)</u>	<u>(184,618)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

		30 June	31 December
		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		19,532	22,696
Investment property		237,491	237,651
Right-of-use assets		738	2,760
Intangible assets		38,248	38,248
Interest in joint ventures		1,091	1,091
Financial assets at fair value through profit or loss ("FVTPL")	<i>10</i>	413,674	414,304
Total non-current assets		710,774	716,750
CURRENT ASSETS			
Inventories		2,799	5,898
Trade receivables	<i>11</i>	348,429	348,405
Financial assets at FVTPL		39,091	39,091
Prepayments, deposits and other receivables		24,636	25,434
Tax recoverable		800	444
Cash and cash equivalents		2,021	13,994
Total current assets		417,776	433,266
CURRENT LIABILITIES			
Trade payables	<i>12</i>	979	244
Other payables and accruals		130,033	110,667
Interest-bearing bank and other borrowings		488,078	484,165
Derivative financial instruments	<i>13</i>	–	1,430
Convertible bonds	<i>13</i>	491,253	437,190
Lease liabilities		3,875	4,060
Financial guarantee		25,800	25,800
Total current liabilities		1,140,018	1,063,556
NET CURRENT LIABILITIES		(722,242)	(630,290)
TOTAL ASSETS LESS CURRENT LIABILITIES		(11,468)	86,460

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2020

	30 June	31 December
	2020	2019
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
NON-CURRENT LIABILITIES		
Other payables	9	9
Interest-bearing other borrowings	19,609	16,670
Lease liabilities	972	2,800
Deferred tax liabilities	48,563	48,563
	<hr/>	<hr/>
Total non-current liabilities	69,153	68,042
	<hr/>	<hr/>
NET (LIABILITIES)/ASSETS	(80,621)	18,418
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to ordinary equity holders of the Company		
Share capital	68,108	68,108
Reserves	(76,613)	9,514
	<hr/>	<hr/>
Non-controlling interests	(8,505)	77,622
	(72,116)	(59,204)
	<hr/>	<hr/>
Total (deficiency in assets)/equity	(80,621)	18,418
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The principal place of business of the Company is located at Room 1808-10, 18/F, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong.

During the Reporting Period, the Group was primarily involved in provision of car rental and other business services.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group for the Reporting Period have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB") and the applicable disclosure requirements of the Rules Governing the Listing of Securities (the "**Listing Rules**"). The condensed consolidated interim financial statements have been prepared on the historical cost basis. The accounting policies and methods of computation used in the condensed consolidated interim financial statements for the Reporting Period are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019.

The HKICPA has issued a number of new or amended HKFRSs that are effective for the current accounting period of the Group:

Amendments to References to Conceptual Framework in IFRS Standards	
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 7, IFRS 9 and IAS 39	Interest Rate Benchmark Reform
Amendments to IFRS 16	Covid-19-Related Rent Concessions

The new or amended IFRSs that are effective from 1 January 2020 did not have any significant impact on the Group's accounting policies.

3. OPERATING SEGMENT INFORMATION

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

- (a) Car rental segment – primarily engages in the provision of car rental services; and
- (b) Other 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 revenue.

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

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

3. OPERATING SEGMENT INFORMATION (Continued)

	Car rental		Materials trading		Financing services and investments		Others		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Segment revenue										
Sales of goods	-	-	-	631,836	-	-	-	-	-	631,836
Car rental income	7,659	10,367	-	-	-	-	-	-	7,659	10,367
Service income	-	-	-	-	-	-	2,073	882	2,073	882
	7,659	10,367	-	631,836	-	-	2,073	882	9,732	643,085
	Car rental		Materials trading		Financing services and investments		Others		Total	
	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Segment assets	98,370	66,917	517,821	325,548	86,178	403,863	-	254,611	702,369	1,050,939
Reconciliation:										
Corporate and other unallocated assets									426,181	99,077
Total assets									1,128,550	1,150,016
Segment liabilities	46,096	42,438	-	-	-	-	304,717	39,144	350,813	81,552
Reconciliation:										
Corporate and other unallocated liabilities									858,359	1,050,046
Total liabilities									1,209,172	1,131,598

3. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

The following table presents derived revenue from external customers for the six months ended 30 June 2020 and 2019 and certain non-current assets information as at 30 June 2020 and 31 December 2019, by geographical areas.

	The United States <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2020 (Unaudited)					
Revenue from external customers	–	8,169	1,563	–	9,732
Six months ended 30 June 2019 (Unaudited)					
Revenue from external customers	–	12,795	630,290	–	643,085
As at 30 June 2020 (Unaudited)					
Non-current assets	208,161	166,715	335,898	–	710,774
Non-current assets (excluding financial instruments)	208,161	61,173	27,766	–	297,100
As at 31 December 2019 (Audited)					
Non-current assets	274,535	431,677	13,592	–	716,750
Non-current assets (excluding financial instruments)	237,936	61,859	2,651	–	302,446

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

Revenue from major customers

During the Reporting Period, the Group has recorded nil customer (2019: four), which amounted to 10 per cent or more of the Group's total revenue.

4. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of car rental and other services rendered during the period.

An analysis of revenue from contract with customers is as follows:

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Sales of goods recognised at a point in time	–	631,836
Car rental income	7,659	10,367
Service income recognised at a point in time	2,073	882
	<u>9,732</u>	<u>643,085</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	9,663	18,186
Interest on convertible bonds	54,063	58,653
Interest on lease liabilities	1,066	328
Bank charges	136	39
	<u>64,928</u>	<u>77,206</u>

6. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold and services rendered	7,776	609,911
Depreciation	3,810	5,878
Allowances for ECLs on trade and other receivables	86,891	182,751
Write back of allowances for ECLs on trade and other receivables	(85,970)	(90,632)
Other lease expenses*	1,539	8,430
Loss on disposal of items of property, plant and equipment, net	(355)	(800)
Write-off of items of property, plant and equipment	(495)	43
Gain on disposal of a subsidiary	–	(5,566)
	<u> </u>	<u> </u>

* These expenses relate to short-term leases. They are directly charged as expenses and are not included in the measurement of lease liabilities under HKFRS 16.

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Current – Elsewhere		
Over-provision in prior years	(20)	–
Deferred tax	–	13,641
	<hr/>	<hr/>
Total tax charge for the period	(20)	13,641
	<hr/> <hr/>	<hr/> <hr/>

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: Nil).

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY FOR THE PERIOD

The calculation of the basic and diluted loss per share is based on the loss for the period attributable to ordinary equity holders of the Company of approximately HK\$87,535,000 (loss for the six months ended 30 June 2019: HK\$173,663,000) and the weighted average number of ordinary shares of 340,537,522 (30 June 2019 (restated): 340,537,522) in issue during the period.

No diluted loss per share was presented as there were no potential dilutive ordinary shares in issue during both periods under review.

During the Reporting Period, 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. Accordingly, the weighted average number of shares for the purposes of basic and diluted loss per share has been adjusted for both periods.

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY FOR THE PERIOD (Continued)

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the period attributable to ordinary equity holders of the Company	<u>(87,535)</u>	<u>(173,663)</u>
<i>Add:</i> Interest expense on convertible bonds	54,063	58,653
<i>Less:</i> Fair value gain on derivative component of the convertible bonds	<u>(1,430)</u>	<u>(6,960)</u>
Adjusted loss for the period attributable to ordinary equity holders of the Company	<u>(34,902)</u>	<u>(121,970)</u>
Number of shares		
	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
		(restated)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per above calculation	<u>340,537,522</u>	<u>340,537,522</u>

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Non-current financial assets at FVTPL		
An acquired convertible bond	–	–
An unlisted fund investment	10,941	10,941
Unlisted equity investments	402,733	403,363
	<u>413,674</u>	<u>414,304</u>

11. TRADE RECEIVABLES

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Trade receivables	834,345	834,321
<i>Less: Allowance for ECLs</i>	(485,916)	(485,916)
	<u>348,429</u>	<u>348,405</u>

The Group's trading terms with its customers are mainly on credit with credit period generally from 90 to 180 days, or could be longer under certain circumstances. The Group seeks to maintain strict control over its outstanding receivables overdue balances are reviewed regularly by senior management. Overdue trade receivables are interest-bearing.

11. TRADE RECEIVABLES (Continued)

An ageing analysis of the trade receivables as at 30 June 2020, based on the invoice date, is as follows:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Within 90 days	854	587
90 to 180 days	448	1,229
Over 180 days	<u>347,127</u>	<u>346,589</u>
Total	<u>348,429</u>	<u>348,405</u>

12. TRADE PAYABLES

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

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Within 30 days	979	156
31 to 60 days	–	29
Over 60 days	<u>–</u>	<u>59</u>
	<u>979</u>	<u>244</u>

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

13. CONVERTIBLE BONDS

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

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

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

On 15 May 2019, the Company and the bondholder of 2019 Convertible Bond entered into a deed of amendment, pursuant to which the maturity date of 2019 Convertible Bond was extended from 16 May 2019 to 16 May 2021, the conversion price of 2019 Convertible Bond 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 Convertible Bond is 10.7%.

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

13. CONVERTIBLE BONDS (Continued)

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

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

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

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

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

According the effective of the Share Consolidation on 26 June 2020, there are outstanding Existing CBs upon the full conversion of which a total of 1,857,142,856 new Existing Shares may be allotted and issued to the relevant bondholders. The Share Consolidation are lead to adjustment to the conversion price of the Existing CBs and the number of Consolidated Shares which may fall to be issued upon exercise of the conversion rights attaching to the Existing CBs, such adjustment to be made in accordance with the terms and conditions of the Existing CBs and the Listing Rules.

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 Existing Shares or Consolidated Shares, as the case may be.

13. CONVERTIBLE BONDS (Continued)

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

	Liability component <i>HK\$'000</i>	Derivative component <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019 (Audited)	345,445	6,620	352,065
Movement upon modification of 2019 Convertible Bond	(1,020)	1,020	–
Interest expenses	105,765	–	105,765
Interest paid	(13,000)	–	(13,000)
Fair value gain	–	(6,210)	(6,210)
	<hr/>	<hr/>	<hr/>
At 31 December 2019 and 1 January 2020 (Audited)	437,190	1,430	438,620
Interest expenses	54,063	–	54,063
Fair value gain	–	(1,430)	(1,430)
	<hr/>	<hr/>	<hr/>
At 30 June 2020 (Unaudited)	<u>491,253</u>	<u>–</u>	<u>491,253</u>
Represented by:			
Current portion (Unaudited)	491,253	–	491,253
Non-current portion (Unaudited)	<hr/>	<hr/>	<hr/>
	<u>491,253</u>	<u>–</u>	<u>491,253</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Car Rental Business

During the Reporting Period, the Group continued its operation of car rental business in China through its indirect wholly-owned subsidiary, 北京途安汽車租賃有限責任公司 (Beijing Tu An Car Rental Services Limited*) (“**Beijing Tu An**”), in which its existing fleet size has reached saturation usage. Beijing Tu An is striving to enhance its capacity and attract more new customers. For the six months ended 30 June 2020, the car rental business segment of the Group recorded a revenue of approximately HK\$7.7 million (six months ended 30 June 2019: HK\$10.4 million). The Group will maintain its developmental strategies in order to enhance its capacity and capture incremental market share.

Materials Trading Business

Since the beginning of 2020, the outlook of the global economy has been filled with uncertainties, in particular, with the major events that are likely to have adverse impact on the Group’s materials trading business, i.e. the outbreak of the novel coronavirus (“**COVID-19**”), the deterioration of Sino-US relations on the Chinese economy and the international oil price war.

Due to the outbreak of COVID-19, the global economy has been facing increasing pressure and the overall economic activities have slowed down with widespread lockdowns of cities, resulting in a significant drop in manufacturing purchasing managers index and GDP growth across different countries. Global economic activities have been reduced and therefore it is likely to affect our materials trading business. The Board believes that the Group’s business environment will continue to be challenging in the short to medium term as it takes time for economic recovery. In addition, the Group has reviewed the materials trading business and has adopted more conservative posture in order to avoid any potential risk and significant loss from this business segment. During the Reporting Period, no negotiation of new orders or new deals could arrive at terms that could meet the risk reduction requirement. As a result of all the above, the Group recorded nil from the material trading business during the Reporting Period (six months ended 30 June 2019: approximately HK\$631.8 million).

* For identification purpose only

Financing Services and Investment Businesses

As disclosed from the 2019 Annual Report dated 15 May 2020, the management of the Group decided to close its wholly-owned subsidiary, HongDa Securities Limited. And as at 30 June 2020, the Group deregistered with the Securities and Futures Commission (SFC) as a Type 1 licensed corporation.

FUTURE OUTLOOK

The sudden global economic recession triggered by COVID-19, the deterioration of Sino-US relations on the Chinese economy and the commodities' price fluctuation, will undoubtedly weaken international demand in 2020. This is not a normal recession, but it will take time to resume the same level of economic activity pre-crisis and the same growth rate.

Despite the above unpredictable events, the Group has been looking into opportunities to diversify its business to create new income stream. The Board considers the forest-related business including forest management and trading and sale of forest and timber products has great development potential and could provide a new source of income for the Group. In addition, the Group will continue to identify suitable business opportunities and closely monitor the latest economic situation when implementing its business plans as needed.

FINANCIAL REVIEW

Results of the Group

Revenue

During the six months ended 30 June 2020, the Group recorded a revenue of approximately HK\$9.7 million, which represented a decrease of approximately 98.5% as compared to the revenue of approximately HK\$643.1 million as recorded for the six months ended 30 June 2019. The significant decrease was mainly due to no new orders with acceptable terms can be obtained from the materials trading business. Please refer to the Business Review – Materials Trading Business section from this announcement for more information.

Cost of sales

Cost of sales of the Group decreased by approximately 98.7% from approximately HK\$609.9 million for the six months ended 30 June 2019 to approximately HK\$7.8 million for the six months ended 30 June 2020. The decrease was mainly attributable to no business transaction was recorded from the materials trading business of the Group during the period under review.

Gross profit and margin

The Group recorded a gross profit of approximately HK\$2.0 million for the six months ended 30 June 2020, representing a decrease of approximately 94.1% as compared to the gross profit recorded in the prior period under review. The gross profit margin increased by approximately 14.8% from 5.2% for the six months ended 30 June 2019 to 20.0% in the Reporting Period. The increased was mainly resulted from the increase in the average selling price of car rental.

Other income and gains

Other income and gains of the Group decreased by approximately 88.5%, from approximately HK\$24.3 million for the six months ended 30 June 2019 to approximately HK\$2.8 million for the six months ended 30 June 2020. The decrease was mainly attributed to the decrease in other operating income.

Selling and distribution expenses

Selling and distribution expenses of the Group decreased by approximately 40.0% from approximately HK\$4.8 million during the six months ended 30 June 2019 to approximately HK\$2.9 million for the six months ended 30 June 2020. The decrease was mainly due to the decrease from the business operation in financing services and investments segment during the Reporting Period.

General and administrative expenses

General and administrative expenses of the Group decreased by approximately 37.5% from approximately HK\$53.8 million for the six months ended 30 June 2019 to approximately HK\$33.6 million for the six months ended 30 June 2020. The decrease was mainly due to the administrative expenses decreased from the financing service and investment operation.

Finance costs

Finance costs decreased from approximately HK\$77.2 million for the six months ended 30 June 2019 to approximately HK\$64.9 million for the six months ended 30 June 2020. The decrease was mainly due to the repayment of certain new interest-bearing other borrowings during Reporting Period.

Income tax expense

Income tax expense decreased from approximately HK\$13.6 million for the six months ended 30 June 2019 to approximately HK\$0.02 million for the six months ended 30 June 2020, which was mainly due to the decrease in deferred tax expenses of approximately HK\$13.6 million as a result of the net effect of fair value loss on investment property and derecognition of deferred tax assets in relation to write back of allowance for ECLs on trade receivables during the period under review.

Liquidity and financial resources

As at 30 June 2020, cash and cash equivalents of the Group amounted to approximately HK\$2.0 million (31 December 2019: HK\$14.0 million).

As at 30 June 2020, the Group had interest-bearing bank and other borrowings amounted to approximately HK\$507.7 million (31 December 2019: HK\$500.8 million) and the Group also had liability component of convertible bonds of approximately HK\$491.2 million (31 December 2019: HK\$437.1 million).

As discussed in the note 2 of the Notes to the Consolidated Financial Statement of 2019 Annual Report dated 15 May 2020, the Board is confident that the Group has sufficient financial resources to meet its debt repayment and finance needs for its operations for the foreseeable future.

Gearing ratio

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Total interest-bearing bank and other borrowings and liability components of convertible bonds	998,940	938,025
Total assets	<u>1,128,550</u>	<u>1,150,016</u>
Gearing ratio	<u>88.5%</u>	<u>81.6%</u>

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

As at 30 June 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\$488.1 million (31 December 2019: HK\$484.2 million) and HK\$19.6 million (31 December 2019: HK\$16.7 million), respectively, of which bank and other borrowings of approximately HK\$233.4 million (31 December 2019: HK\$233.6 million) and approximately HK\$63.4 million (31 December 2019: HK\$58.8 million) were denominated in US dollar and Renminbi respectively.

As at 30 June 2020, the maturity profile of the liability components of the Group's issued convertible bonds falling due within one year and from the second year amounted to approximately HK\$491.2 million (31 December 2019: HK\$437.2 million) and HK\$nil (31 December 2019: nil), respectively.

Capital structure

The capital of the Company comprises only ordinary shares. On 26 June 2020, the Share Consolidation on the basis of every twenty (20) issued and unissued Existing Shares of par value of HK\$0.01 each into one (1) Consolidated Share of par value of HK\$0.20 each has become effective. As at 30 June 2020, the total number of the ordinary shares of the Company was 340,537,522 (with an aggregate nominal value of HK\$68,107,504).

Charges on the Group's assets

At 30 June 2020, certain of the Group's other borrowings were secured by the Group's trade receivables of approximately HK\$600.6 million (31 December 2019: HK\$600.6 million), investment property of approximately HK\$237.5 million (31 December 2019: HK\$237.7 million) and restricted bank balances of nil (31 December 2019: nil).

Foreign currency exposure

The foreign currency exposure of the Group primarily arises from revenue or income generated, cost and expenses incurred, and certain interest-bearing 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 as at 30 June 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 30 June 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\$241.9 million (31 December 2019: HK\$205.0 million), of which HK\$33.8 million (31 December 2019: HK\$29.9 million) has been utilised. The financial liabilities in respect of the fair value of this financial guarantee of approximately HK\$25.8 million (31 December 2019: HK\$25.8 million) has been recognised as at 30 June 2020.

Capital Commitments

At 30 June 2020, the Group had outstanding capital commitments amounted to approximately HK\$88.6 million (31 December 2019: HK\$89.4 million).

DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 30 June 2020 (2019: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group employed a total of 17 employees. Total staff costs, including directors emoluments, amounted to approximately HK\$4.0 million for the six months ended 30 June 2020. The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The Group provided discretionary bonuses, medical insurance, provident fund contribution, education subsidy and training to its employees.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the “**Model Code**”) as its own code for dealing in securities of the Company by Directors. All Directors, after specific enquiries by the Company, confirmed that they had complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2020.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2020.

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 Reporting Period except as described in the following:

- (i) code provisions A.6.7 of the code as the Director Mr. Zhao Xianming was 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, 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 REVIEW

The Company has established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The audit committee of the Company, comprises all three independent non-executive Directors, namely, Mr. Zhao Xianming, Mr. Fung Tze Wa and Mr. An Dong, and Mr. Zhao Xianming is the Chairman of the audit committee. The audit committee has reviewed with the management the accounting principles adopted by the Group and the unaudited interim financial statements of the Group for the six months ended 30 June 2020.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

The Group had no material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2020.

EVENTS AFTER THE REPORTING PERIOD

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” (the “**Change of Company Name**”). The Company will update in relation to the change of Company name in due course.

Rights Issue at HK\$0.20 per Rights Shares on the basis of one (1) Rights Shares for every five (5) Share

On 30 July 2020, 2,035,335 Rights Shares have been issued. 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. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcements, Circular and Prospectus.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.hongdafin.com). The interim report of the Company for the six months ended 30 June 2020 containing all the information required by the Listing Rules will be dispatched to the Company’s Shareholders and published on the above websites in due course.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to our customers and shareholders for their continuing support as well as our staff for their dedication and hard work.

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

Hong Kong, 28 August 2020

As at the date of this announcement, the Board comprises Mr. Qiu Bin (Chairman and CEO) as executive Director and Mr. Zhao Xianming, Mr. Fung Tze Wa and Mr. An Dong as independent non-executive Directors.