



寶沙發展

China Bozza Development Holdings Limited

中國寶沙發展控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01069)

2020
Interim Report

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CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Mr. Wang Yue
Professor Fei Phillip (*Chairman*)
Mr. Li Wenjun (*Chief Executive Officer*)
Mr. Wong Hiu Tung
(*resigned with effect from 15 May 2020*)
Ms. Feng Jiamin
Ms. Lu Wei

Independent Non-executive

Directors:

Ms. Tian Guangmei
Mr. Liang Guoxin
(*resigned with effect from 15 June 2020*)
Mr. Liu Zhaoxiang

AUDIT COMMITTEE

Ms. Tian Guangmei (*Chairman*)
Mr. Liang Guoxin
(*resigned with effect from 15 June 2020*)
Mr. Liu Zhaoxiang

REMUNERATION COMMITTEE

Mr. Liang Guoxin
(*resigned with effect from 15 June 2020*)
Professor Fei Phillip
Mr. Liu Zhaoxiang

NOMINATION COMMITTEE

Mr. Liu Zhaoxiang (*Chairman*)
Professor Fei Phillip
Mr. Wang Yue
Mr. Liang Guoxin
(*resigned with effect from 15 June 2020*)

COMPANY SECRETARY

Mr. Leung Man Kit *FCPA*
(*resigned with effect from 27 July 2020*)
Mr. Yuen Kwok Kuen
(*appointed on 27 July 2020*)

AUTHORISED REPRESENTATIVES

Professor Fei Phillip
Mr. Leung Man Kit *FCPA*
(*resigned with effect from 27 July 2020*)
Mr. Yuen Kwok Kuen
(*appointed on 27 July 2020*)

INDEPENDENT AUDITORS

CCTH CPA Limited
Certified Public Accountants

REGISTERED OFFICE

PO Box 1350
Clifton House
75 Fort Street
Grand Cayman
KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1002–1003, 10/F
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA ("CHINA" OR THE "PRC")

Room 1901, 19F.,
DaChong International Centre,
Tonggu Road, Nanshan District,
Shenzhen City,
Guangdong Province,
China

CORPORATE INFORMATION

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Ltd.
PO Box 1350
Clifton House
75 Fort Street
Grand Cayman
KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKER

China Construction Bank (Asia)
Corporation Limited
11/F, Devon House
979 King's Road
Quarry Bay, Hong Kong

COMPANY WEBSITE

www.chinacaflc.com

STOCK CODE

01069

FINANCIAL HIGHLIGHTS

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2020

- Revenue of China Bozza Development Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter referred to as the “**Group**”) for the six months ended 30 June 2020, which is contributed from the container house business, forestry business and money lending business of the Group, amounted to approximately Renminbi (“**RMB**”) 3.86 million (six months ended 30 June 2019: RMB6.76 million).
- Loss attributable to the owners of the Company for the six months ended 30 June 2020 amounted to approximately RMB22.0 million (six months ended 30 June 2019: approximately RMB16.4 million).
- Total comprehensive expense attributable to the owners of the Company for the six months ended 30 June 2020 amounted to approximately RMB27.2 million (six months ended 30 June 2019: approximately RMB17.2 million).
- Basic loss per share for the six months ended 30 June 2020 amounted to approximately RMB0.20 cents (six months ended 30 June 2019: RMB0.15 cents).
- The board (the “**Board**”) of directors (the “**Directors**”) of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

The Group is principally engaged in the businesses of (a) forestry management; (b) money lending and (c) provision of management and related services for the leases of container houses.

Forestry management business

As at 30 June 2020, the long-lease forest lands in the PRC owned by the Group were approximately 21,045 Chinese Mu (equivalent to approximately of 1,403 hectares), 9,623 Chinese Mu (equivalent to approximately of 642 hectares), 13,219 Chinese Mu (equivalent to approximately of 881 hectares), 30,653 Chinese Mu (equivalent to approximately 2,044 hectares) and 42,814 Chinese Mu (equivalent to approximately of 2,854 hectares) in Muma Town of Jiange County of Sichuan Province (the “**Hengchang Forest**”), Zhengxing Town of Jiange County of Sichuan Province (the “**Kunlin Forest**”), Yixing Town of Jiange County of Sichuan Province (the “**Senbo Forest**”), Longyuanzhen, Houshixiang and Dianzixiang town of Jiange County of Sichuan Province (the “**Ruixiang Forest**”) and Kaifeng Town, Yingshui village, Guangping village, Zheba village, Jiange County of the Sichuan Province (the “**Wantai Forest**” together with the Hengchang Forest, Kunlin Forest, Senbo Forest and Ruixiang Forest, the “**Forests**”), respectively.

The Hengchang Forest is held by China Timbers Limited (“**China Timbers**”, together with its subsidiaries “**China Timbers Group**”), through its wholly-owned subsidiaries. China Timbers was acquired by the Group on 28 May 2013. As at 30 June 2020, the Hengchang Forest was estimated to comprise of approximately 1,389 hectares of cypress.

The Kunlin Forest is held by China Timbers Limited (“**China Timbers**”, together with its subsidiaries “**China Timber Group**”) through its wholly-owned subsidiaries. The Kunlin Forest had a total leasehold land base of approximately 9,623 Chinese Mu (equivalent to approximately 642 hectares). As at 30 June 2020, the Kunlin Forest is estimated to comprise of approximately 642 hectares of cypress.

The Senbo Forest is held by Huxiang International Holdings Limited (“**Huxiang**” together with its subsidiaries “**Huxiang Group**”), through its wholly-owned subsidiaries. Huxiang was acquired by the Group on 11 October 2016. As at 30 June 2020, the Senbo Forest was estimated to comprise of approximately 881 hectares of cypress with approximately 171 hectares of tree plantations aged 40 years or older.

MANAGEMENT DISCUSSION AND ANALYSIS

The Ruixiang Forest is held by Garden Glaze Limited (“**Garden Glaze**” together with its subsidiaries “**Garden Glaze Group**”), through its wholly owned subsidiaries. Garden Glaze was acquired by the Group on 6 June 2017. As at 30 June 2020, the Ruixiang Forest was estimated to comprise of approximately 2,044 hectares of cypress with approximately 9 hectares of tree plantations aged 40 years or older.

On 24 August 2018, the Group acquired the entire equity interest in Today Bridge Limited (“**Today Bridge**”) and its subsidiaries (collectively referred to as the “**Today Bridge Group**”) which principally holds plantation forest assets in Kaifeng Town, Yingshui village, Guangping village, Zheba village, Jiange County of the Sichuan Province in the PRC (“**Wantai Forest**”). The Wantai Forest had a total leasehold land base of approximately 42,814 Chinese Mu (equivalent to approximately of 2,854 hectares). All of the forestry ownership certificates of the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Wantai Forest. As at 30 June 2020, the Wantai Forest is estimated to comprise approximately 2,854 hectares of cypress.

The Hengchang Forest, the Kunlin Forest, the Senbo Forest, the Ruixiang Forest and the Wantai Forest have been under various maintenance works, and the logging and transportation permits of the forest lands are being applied before the commencement of harvesting work. Accordingly, no revenue has been contributed from the Hengchang Forest, the Kunlin Forest, the Senbo Forest, the Ruixiang Forest and the Wantai Forest to the Group for the six months ended 30 June 2020.

No harvesting work has been carried out on such assets for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

Money lending business

The Company’s wholly-owned subsidiary, namely Forever Biosource (Credit) Limited, is engaged in money lending business and recorded approximately RMB3.7 million (six months ended 30 June 2019: RMB3.5 million) as interest income for the six months ended 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Container houses business

Generally, the manufacturing and maintenance of the container houses, along with its accessories, including furniture, interior decoration, and other facilities, needs substantial amount of wood materials. As the Group is also involved in the forest land business in the foreseeable future, it has the capability to provide sufficient raw materials to satisfy the demand of wood materials in container house business.

During the year ended 31 December 2018, the Board noted that there were changes in economic and regulatory environments of container house business in the PRC. To better allocate resources for the Group and to realize the Group's investment in its container house business, as set out in the announcements of the Company dated 7 December 2018 and 14 December 2018, on 14 December 2018, the Group disposed Exceed Target Investment Group Limited and its subsidiaries, including the then operating subsidiary Xiangyin Chong Sheng Chi Yip Limited* (湘陰中箱置業有限公司), which engaged in container house business.

The Group currently conducts container house business through Shenzhen Heng Fu Delaisi Intelligent Housing Limited* (深圳恒富得萊斯智能房屋有限公司) and the relevant PRC subsidiaries.

For the six months ended 30 June 2020, the Group achieved a revenue of RMB0.2 million (six months ended 30 June 2019: RMB3.28 million), which accounted for 5.2% of the total revenue.

FINANCIAL REVIEW

Revenue

During the period under review, the Company recorded a revenue of RMB3.86 million (six months ended 30 June 2019: RMB6.76 million). The Group's revenue for the current period is attributable to the revenue from the container houses business and money lending business of the Group.

Interest income of approximately RMB3.66 million (six months ended 30 June 2019: RMB3.48 million) from the money lending business has been recognised for the six months ended 30 June 2020.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

No management services income (six months ended 30 June 2019: RMB3.09 million) from container houses business has been recognised for the six months ended 30 June 2020.

Rental income of approximately RMB0.20 million (six months ended 30 June 2019: RMB0.19 million) from container houses business has been recognised for the six months ended 30 June 2020.

For the six months ended 30 June 2020, no revenue was recorded for the forestry management business.

Cost of Sales

The cost of sales of the Group for the six months ended 30 June 2020 is mainly attributable to labour costs and other direct costs in the container houses business.

Valuation of Plantation Forest Assets

Management is of the view that the fair value less cost to sell of the Group's plantation forest assets at 30 June 2020 approximates those as at 31 December 2019 and that there has been no significant change in fair value of the Group's plantation forest assets since 31 December 2019.

Biological Assets

The biological assets of the Group represent the plantation forest assets situated in Jiange County of Sichuan Province.

MANAGEMENT DISCUSSION AND ANALYSIS

Movements of biological assets are as follows:

	Hengchang Forest RMB'000	Kunlin Forest RMB'000	Senbo Forest RMB'000	Ruixiang Forest RMB'000	Wantai Forest RMB'000	Total RMB'000
At 31 December 2018 (audited) and at 30 June 2019 (unaudited)	189,000	55,300	63,100	141,000	126,000	574,400
Harvested timber transferred to cost of inventories sold	(1,818)	(1,341)	(1,468)	(2,057)	(2,342)	(9,026)
Changes in fair value less costs to sell	(38,182)	(659)	2,568	(8,943)	(5,658)	(50,874)
At 31 December 2019 (audited) and at 30 June 2020 (unaudited)	149,000	53,300	64,200	130,000	111,800	514,500

(a) *Hengchang Forest*

On 28 May 2013, the Group acquired the entire equity in **China Timbers**. **China Timbers Group** are principally engaged in the operation and management of **Hengchang Forest**. The Hengchang Forest had a total leasehold land base of approximately 21,045 Chinese Mu (equivalent to approximately 1,403 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Hengchang Forest. During the period under review, no timber logs in respect of the Hengchang Forest were harvested (six months ended 30 June 2019: nil). As at 30 June 2020, the Hengchang Forest is estimated to comprise approximately 1,389 hectares of cypress trees.

MANAGEMENT DISCUSSION AND ANALYSIS

(b) *Kunlin Forest*

On 26 February 2016, the Group acquired the entire equity interest in Exceed Target Investment Group Limited (“**Exceed Target**”) and its subsidiaries (collectively referred to as the “**Exceed Target Group**”) which are principally engaged in the operation and management of the forest in Zhengxing Town of Jiange County of Sichuan Province in the PRC. Jiange Kunlin Linye Company Limited was transferred from Exceed Target Group to China Timbers Group on 14 November 2018. The Kunlin Forest had a total leasehold land base of approximately 9,623 Chinese Mu (equivalent to approximately 642 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Kunlin Forest. During the period under review, no timber logs in respect of the Kunlin Forest were harvested (six months ended 30 June 2019: nil). As at 30 June 2020, the Kunlin Forest is estimated to comprise of approximately 642 hectares of cypress.

(c) *Senbo Forest*

On 11 October 2016, the Group acquired the entire equity interest in **Huxiang Group** principally holds plantation forest assets in Senbo Forest. The Senbo Forest had a total leasehold land base of approximately 13,219 Chinese Mu (equivalent to approximately 881 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Senbo Forest. During the period under review, no timber logs in respect of the Senbo Forest were harvested (six months ended 30 June 2019: nil). As at 30 June 2020, the Senbo Forest is estimated to comprise of approximately 881 hectares of cypress with approximately 171 hectares of tree plantations aged 40 years or older.

(d) *Ruixiang Forest*

On 6 June 2017, the Group acquired the entire equity interest in **Garden Glaze**. **Garden Glaze Group** principally holds plantation forest assets in Ruixiang Forest. The Ruixiang Forest had a total leasehold land base of approximately 30,653 Chinese Mu (equivalent to approximately 2,044 hectares). All of the forestry ownership certificates of the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Ruixiang Forest. During the period under review, no timber logs in respect of the Ruixiang Forest were harvested (six months ended 30 June 2019: nil). As at 30 June 2020, the Ruixiang Forest is estimated to comprise approximately 2,044 hectares of cypress trees with approximately 9 hectares of tree plantations with aged 40 years or older.

MANAGEMENT DISCUSSION AND ANALYSIS

(e) *Wantai Forest*

On 24 August 2018, the Group acquired the entire equity interest in Today Bridge. Today Bridge Group principally holds plantation forest assets in Wantai Forest. The Wantai Forest had a total leasehold land base of approximately 42,814 Chinese Mu (equivalent to approximately of 2,854 hectares). All of the forestry ownership certificates of the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Wantai Forest. During the period under review, no timber logs in respect of the Wantai Forest were harvested (six months ended 30 June 2019: nil). As at 30 June 2020, the Wantai Forest is estimates to comprise of approximately 2,854 hectares of cypress.

Selling and Distribution Costs

The selling and distribution costs recognised for the six months ended 30 June 2020 amounted to approximately RMB0.2 million (six months ended 30 June 2019: RMB0.2 million). The selling and distribution costs were mainly attributable to the transportation costs incurred.

Administrative Expenses

The administrative expenses increase by approximately 58.6% from approximately RMB8.7 million for six months ended 30 June 2019 to approximately RMB13.8 million for the six months ended 30 June 2020. The increase in administrative expenses was mainly attributable to increase in staff cost.

Impairment loss recognised in respect of trade receivables

No impairment loss was recognised in respect of trade receivables for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

The finance costs include mainly interests on (i) the promissory notes (being the Note A as stated below), bearing 5% interest rate per annum and with the principal amount of HK\$23,800,000 issued on 6 June 2017; (ii) the promissory notes (being the Note B as stated below), bearing 5% interest rate per annum with the principal amount of HK\$34,100,000 issued on 15 August 2018; (iii) the corporate bonds with the aggregate principal amounts of HK\$276,000,000 bearing interest rates ranged from 4.154% to 12.367% per annum.

Income Tax Expense

For the six months ended 30 June 2020, the income tax expense was approximately RMB0.1 million (six month ended 30 June 2019: income tax expense RMB0.3 million), which was attributable to the Hong Kong Profits Tax and the PRC tax imposed on profits of the subsidiaries less the PRC deferred tax credit.

Loss and Total Comprehensive Expense Attributable to Owners of the Company

Loss for the period under review was approximately RMB22.0 million (six months ended 30 June 2019: RMB16.4 million).

As a result of the above changes, the Company has recorded a loss of approximately RMB22.0 million for the six months ended 30 June 2020, compared to a loss of approximately RMB16.4 million for the six months ended 30 June 2019. The total comprehensive expense attributable to owners of the Company was approximately RMB27.2 million for the six months ended 30 June 2020, as compared to a total comprehensive expense of approximately RMB17.2 million for the six months ended 30 June 2019.

Loss Per Share

Basic loss per share for the six months ended 30 June 2020 amounted to approximately RMB0.20 cents (six months ended 30 June 2019: RMB0.15 cents).

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group had a total of 37 employees and management personnel as compared to 70 employees and management personnel as at 30 June 2019. Total staff costs for the period under review, including Directors' remuneration, amounted to approximately RMB4.7 million (six months ended 30 June 2019: RMB4.6 million). The Group's remuneration policy is in line with the prevailing market standards and is determined on the basis of performance and experience of individual employee. Other employee benefits include contributions to social insurance scheme.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations from internally generated cash flows, bank borrowings and certain net proceeds from fund raising activities. As at 30 June 2020, the Group had total assets of approximately RMB583.6 million and net assets of approximately RMB225.0 million. The Group's cash and bank balances as at 30 June 2020 amounted to approximately RMB1.27 million. As at 30 June 2020, there was no unutilised banking facilities (30 June 2019: nil).

Promissory note issued on 6 June 2017 (the "Note A")

On 31 May 2017, the Company and the vendors, six independent third parties entered into an acquisition agreement, pursuant to which, among other things, the Company has conditionally agreed to acquire the entire issued share capital in Garden Glaze, at total consideration of HK\$170,000,000, to be satisfied by the issue of the Promissory Note (being the "Note A") to the vendors. Garden Glaze is an investment holding company incorporated in the BVI with limited liability. Through its wholly-owned subsidiaries, Garden Glaze indirectly wholly holds the entire equity interest in Jiange Ruixiang Linye Company Limited, which is principally engaged in the plantation, harvesting and selling of timber in the forests, and possesses the Ruixiang Forest and the right to be engaged in the operations and management of the Ruixiang Forest. The Note A bears an interest at 5% per annum for two years and is payable on the maturity date of 5 June 2019. During the year ended 31 December 2017, the Company redeemed part of the Note A with the principal amount of HK\$86,200,000 for cash consideration of HK\$86,200,000. During the year ended 31 December 2018, the Company redeemed part of the Note A with the principal amount of HK\$60,000,000 for cash consideration of HK\$60,000,000. On 3 June 2019, the Company entered into a supplemental deed to amend certain terms and conditions of the Note A, pursuant to which the parties thereto agreed to extend the maturity date of the Note A, with the principal amount of HK\$23,800,000 from 5 June 2019 to 5 July 2019. At 30 June 2020, the Note A with the principal amount of HK\$23,800,000 remained outstanding.

MANAGEMENT DISCUSSION AND ANALYSIS

Promissory note issued on 15 August 2018 (the “Note B”)

On 15 August 2018, the Company issued the Note B with the principal amount of HK\$34,100,000 as part of the consideration for acquisition of the entire interest in Today Bridge and its subsidiaries. The Note B is unsecured, carries interest at 5% per annum and is payable on the maturity date of 14 August 2020. The Company is also entitled to redeem the whole or part of the Note B at any time after the issue date to one day before the maturity date by 7 business days advance notice.

At 30 June 2020, the Note B with the principal amount of HK\$34,100,000 (31 December 2019: HK\$34,100,000) remained outstanding.

PLEDGE OF ASSETS

As at 30 June 2020, there was no pledge of assets of the Group.

MATERIAL LITIGATION

On 15 May 2020, the Group received a petition (the “**Petition**”) filed by a holder of the bonds issued by the Group against the Group for an order of winding up the Company. The Petition was filed against the Group for failure to settle the outstanding principal of the bonds and the accrued interest accumulated to an aggregate of HK\$10,158,794, which was included in corporate bonds payable at 30 June 2020 presented in the condensed consolidated statement of financial position. In relation to the Petition, the hearing has been adjourned to Wednesday, 14 October 2020. The Company will make further announcement as and when appropriate, in particular when the Petition could be stayed or withdrawn subject to the order of the Court and following the terms of the settlement agreement of the Petition entered into between the Company and the Petitioner.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE EXPOSURE AND RELATED HEDGES

The Group's transactions are mainly denominated in Hong Kong dollars and RMB. Therefore, the Group is exposed to exchange rate risk. The majority of the Group's cash and bank balances are also denominated in these two currencies. During the six months ended 30 June 2020, the Group did not experience significant exposure to exchange rate and interest rate fluctuations. Accordingly, the Group has not implemented any foreign currency hedging policy at the moment. However, the management of the Group will constantly review the economic situation, development of each business segment and the overall foreign exchange risk profile, and will consider appropriate hedging measures in the future when necessary.

GEARING RATIO

The gearing ratio of the Group, which is calculated as total liabilities divided by total assets of the Group was approximately 61.4% as at 30 June 2020 (31 December 2019: 57.1%).

As at 30 June 2020, promissory notes with the principal amount of HK\$57.9 million remained outstanding and the corporate bonds with the principal amount of HK\$276 million remained outstanding.

CAPITAL STRUCTURE

The share capital of the Group comprises only ordinary shares. As at 30 June 2020, the total number of the ordinary shares of the Company in issue was 11,024,220,415 shares (31 December 2019: 11,024,220,415 shares). The total equity attributable to the owners of the Company was approximately RMB225.0 million (31 December 2019: approximately RMB252.2 million).

CAPITAL COMMITMENTS

The Group has no capital commitments at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

UPDATE OF THE PROFIT GUARANTEE IN RELATION TO THE ACQUISITION OF HENGFUDELAI

References are made to the announcements of the Company dated 22 April 2016, 21 June 2016 and 15 July 2016, and the circular of the Company dated 27 June 2016 concerning the acquisition of Shenzhen Heng Fu Delaisi Intelligent Housing Limited* (深圳恒富得萊斯智能房屋有限公司) (“**Hengfudelai**”). The entire consideration of the acquisition was RMB250,000,000, of which a total sum of RMB210,000,000 would be payable by stage by the Company on a half-yearly basis after Hengfudelai has achieved the profit guarantee in a sum which is equal to the amount of the part of the consideration payable; and the vendors have to compensate up to RMB40,000,000 to the Company if the accumulated audited net profit of Hengfudelai after taxation during the guaranteed period is less than RMB210,000,000.

Reference is made to the Company’s interim report 2017, the profit guarantee of RMB24,500,000 for the period from 1 January 2017 to 30 June 2017 was met. The Company paid the respective vendors RMB7,350,000 by cash and RMB17,150,000 by issuing 62,321,257 shares at the issue price of HK\$0.33 per share as partial consideration of the acquisition.

Reference is also made to the Company’s annual report 2017, the profit guarantee of RMB31,500,000 for the period from 1 July 2017 to 31 December 2017 was not met. As the target group (including Gorgeous City Investment Limited and its subsidiaries including Hengfudelai) (“**Hengfu Group**”) failed to meet 70% of the profit guarantee for the period from 1 July 2017 to 31 December 2017, no consideration or any part thereof was paid to the respective vendors for the period from 1 July 2017 to 31 December 2017.

Reference is also made to the Company’s announcement dated 17 August 2018, the profit guarantee of RMB38,500,000 for the period from 1 January 2018 to 30 June 2018 was not met. As the Hengfu Group failed to meet 70% of the profit guarantee for the period 1 January 2018 to 30 June 2018, no consideration or any part thereof was paid to the respective vendors for the period from 1 January 2018 to 30 June 2018.

Reference is also made to the Company’s announcement dated 13 March 2019, the profit guarantee of RMB45,500,000 for the period from 1 July 2018 to 31 December 2018 was not met. As the Hengfu Group failed to meet 70% of the profit guarantee for the period 1 July 2018 to 31 December 2018, no consideration or any part thereof was paid to the respective vendors for the period from 1 July 2018 to 31 December 2018.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Reference is also made to the Company's announcement dated 28 August 2019, the profit guarantee of RMB52,500,000 for the period from 1 January 2019 to 30 June 2019 was not met. As the Hengfu Group failed to meet 70% of the profit guarantee for the period 1 January 2019 to 30 June 2019, no consideration or any part thereof was paid to the respective vendors for the period from 1 January 2019 to 30 June 2019 in accordance with the terms of the agreement of the acquisition dated 22 April 2016.

In view of the above and in view of the final confirmation of the net profit after taxation of the Hengfu Group during 1 January 2019 to 30 June 2019 through an audit on the financial statements of the Hengfu Group, the Company has informed the respective vendors that the Hengfu Group has failed to meet the profit guarantee. The Company is in the process of discussion and negotiation with the vendors in relation to the remedies to the Company in accordance with the terms of the Acquisition Agreement.

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITIONS AND DISPOSAL

Save as disclosed in this report, there were no significant investment held or material acquisitions and disposals of subsidiaries for the six months period ended 30 June 2020.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to acting in an environmentally responsible manner, the Group strives to ensure minimal environmental impacts by carefully managing our energy consumption, water usage and waste production, such as using LED lamps, recycling and use of eco-friendly stationery, plus a series of measures to save paper and energy. At office level, the Company has implemented green initiatives and encourage staff to join environmental related training, reported in more efficient use of resources, as well as reduction of waste.

MANAGEMENT DISCUSSION AND ANALYSIS

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Remuneration packages are generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Apart from salary payments, there are other staff benefits including mandatory provident fund, medical insurance and performance related bonus. Relationship is the fundamentals of business. The Group fully understands this principal and thus maintain close relationship with the customers to fulfil their immediate and long-term need. The Group encompasses working relationships with suppliers to meet our customer's needs in an effective and efficient manner. The Group works closely and well-communicated to suppliers before the commencement of a project.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE COMPANY

The following lists out the principal risks and uncertainties facing the company in achieving business objectives and the Group's approach to tackle them.

Impact of local and international regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities in the PRC. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Major risks associated with the plantation assets

The major risks associated with the plantation assets involve (i) regulatory and environmental risks; (ii) climate and other risks; and (iii) supply and demand risk. The Group tackled the risks by (i) performing regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks; (ii) monitoring and mitigating climate and other risks with measures including regular forest health inspections and industry pest and disease surveys; (iii) performing regular industry trend analyses to ensure that the Group's pricing structure is in line with market, and that the projected harvest volumes are consistent with the expected demand.

MANAGEMENT DISCUSSION AND ANALYSIS

Currency risk

No revenue derived by the Group in respect of the period ended 30 June 2020 was denominated in foreign currencies. Substantially all of the costs incurred for the period ended 30 June 2020 was denominated in functional currencies of the group entities. As at 30 June 2020, the Group had no significant monetary assets and liabilities which were denominated in foreign currencies. The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

As at 30 June 2020, the Group was also exposed to cash flow interest rate risk in relation to bank balances carried at prevailing floating market rate. However, such exposure is minimal to the Group as the bank balances are all short-term in nature.

PROSPECTS

Against the backdrop of unresolved trade and political friction among different nations, the global economic outlook is still clouded by remaining uncertainties. The slow growth in global economic activity, coupled with and amplified by the plight brought about by the outbreak of Coronavirus disease 2019 (COVID-19) in early 2020, contributed to challenging and impact on the overall social economic development in the first half of 2020. The Group faced unprecedented pressure and challenges on its operation and business activities.

The current external environment of the economic situation of the relevant regions are still complicated and severe, with relatively high level of uncertainties and instability. The Group endeavors to overcome the economic pressure that may arise from the aforesaid uncertainties and exerts available resources to respond to the foreseeable negative impacts of the epidemic by actively resuming work and production when available and permitted by local government. The Group believes uncertainties create opportunities. The Group will continue to pay cautiously close attention on investment opportunities, including the LOI signed in the second half of 2019 between the potential individual third party and the Company, which the Group believed to have good development and investment potential, with the objective of being open-minded about new opportunities for growth and expansion of the Group's business, so as to create better return for shareholders amid the uncertain economic environment.

DISCLOSURE OF ADDITIONAL INFORMATION

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (For the six months ended 30 June 2019: nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2020.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has adopted all the code provisions (the “**Code Provisions**”) contained in the Corporate Governance Code (the “**CG Code**”) as set out in the Appendix 14 to the Listing Rules as the Company’s code on corporate governance. The Board shall review and update its code of corporate governance from time to time to ensure its continuous compliance with the CG Code. Throughout the six months ended 30 June 2020, in the opinion of the Board, the Company complied with all the Code Provisions contained in the CG Code and, where appropriate, adopted the Recommended Best Practices set out in the CG Code, with the exceptions of Code Provisions A.1.8, A.4.1 and A.5.1 as addressed below:

1. Pursuant to the Code Provision A.1.8, the Company should arrange appropriate insurance cover in respect of any legal action against its Directors and officers. Up to the date of this report, the Company has not arranged to purchase any Directors and Officers’ Liability Insurance, which covers in respect of legal action against the Directors, as the Directors take the view that the Company shall support Directors in any events arising from corporate activities;

DISCLOSURE OF ADDITIONAL INFORMATION

2. Under the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. At present, none of the non-executive Directors has been appointed for a specific term. Notwithstanding the aforesaid deviation, one-third of the Directors (including the non-executive Directors and independent non-executive Directors) are subject to retirement by rotation and re-election at each of the Company's annual general meeting and every Director shall be subject to retirement by rotation at least once in every three years in compliance with the Company's articles of association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are in line with the underlying intentions of Code Provision A.4.1 of the CG Code.
3. Code Provision A.5.1 of the Code provides that issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors. Following the resignation of Mr. Liang Guoxin as an independent non-executive director with effect from 15 June 2020, the members of the Nomination Committee do not comprise a majority of independent non-executive directors. The Company seeks to identify and appoint a new non-executive director as a new member of the Nomination Committee as soon as practicable.

The Company periodically reviews its corporate governance practices to ensure they continue to meet the requirements of the Code Provisions contained in the CG Code.

Non-compliance of the Listing Rules

Following the resignation of Mr. Liang Guoxin as an independent non-executive director with effect from 15 June 2020 and ceased to be and the chairman of the Remuneration Committee, the member of the Audit Committee and the Nomination Committee of the Company, the number of independent non-executive director and each of the Audit Committee, Nomination Committee and the Remuneration Committee of the Company fell below the minimum number required under Rules 3.10(1), 3.10A and 3.21 of the Listing Rules. In addition, the Company failed to meet the composition requirement of the remuneration committee of the Board under Rule 3.25 of the Listing Rules and the composition requirement of the nomination committee under code provision A.5.1 of the Code and the relevant terms of references of the Company. The Listing Rules require the Company to fill the vacancy(ies) of the Board and the relevant board committees within three months from 15 June 2020. The Company seeks to identify and appoint a new independent non-Executive Director, a new chairman of the Remuneration Committee and a new member of the Audit Committee and Nomination Committee as soon as practicable as required in Rules 3.11, 3.23 and 3.27 of the Listing Rules. Further announcement will be made as and when appropriate.

DISCLOSURE OF ADDITIONAL INFORMATION

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules. Having made specific enquiry with all the Directors, the Company confirmed that all the Directors have complied with the code of conduct and the required standard of dealings concerning securities transactions by the Directors for the six months ended 30 June 2020.

AUDIT COMMITTEE

The Company has established the Audit Committee in accordance with the requirements of the Code Provisions as set up in Appendix 14 of the Listing Rules. As at the date of this report, the Audit Committee comprises two independent non-executive Directors, namely Ms. Tian Guangmei (as the chairman), and Mr. Liu Zhaoxiang.

The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

The Audit Committee has reviewed the unaudited interim reports of the Group for the six months ended 30 June 2020 and is of the opinion that the preparation of such Reports complied with the applicable accounting standards, rules and requirements, and that adequate disclosure has been made.

On behalf of the Board

China Bozza Development Holdings Limited

Fei Phillip

Chairman and Executive Director

Shenzhen, the PRC, 29 September 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Revenue	4	3,859	6,758
Cost of sales and services		–	(3,372)
Gross profit		3,859	3,386
Investment and other income	6	3,776	170
Other (losses) gains, net	7	(3,892)	1,278
Selling and distribution expenses		(176)	(218)
Administrative expenses		(13,822)	(8,689)
Finance costs	8	(11,691)	(12,000)
Loss before tax	9	(21,946)	(16,073)
Income tax expense	10	(95)	(288)
Loss for the period		(22,041)	(16,361)
Other comprehensive expense			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		(5,207)	(867)
Total comprehensive expense for the period		(27,248)	(17,228)
Total comprehensive expense attributable to owners of the Company		(27,248)	(17,228)

		Six months ended 30 June	
		2020 (unaudited)	2019 (unaudited)
Loss per share:	12		
Basic		RMB0.20 cents	RMB0.15 cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	13	915	1,011
Right-of-use assets		52,915	55,208
Plantation forest assets	14	514,500	514,500
Deferred tax assets		250	250
		568,580	570,969
Current assets			
Inventories		1,168	1,190
Trade and other receivables	15	7,914	8,457
Loan receivables	16	–	–
Deposits and prepayments		4,751	4,709
Bank balances and cash		1,266	3,181
		15,099	17,537
Current liabilities			
Trade and other payables	17	28,167	22,904
Amount due to a director		110	–
Promissory notes payable	18	57,479	52,567
Corporate bonds payable	19	118,853	98,015
Other borrowings	20	1,217	–
Lease liabilities		3,365	3,214
Income tax payable		364	266
		209,555	176,966
Net current liabilities		(194,456)	(159,429)
Total assets less current liabilities		374,124	411,540
Non-current liabilities			
Corporate bonds payable	19	147,042	155,568
Lease liabilities		2,093	3,735
		149,135	159,303
Net assets		224,989	252,237
Capital and reserves			
Share capital	21	19,016	19,016
Reserves		205,973	233,221
Total equity		224,989	252,237

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company					
	Share capital RMB'000	Share premium RMB'000	Translation reserve RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
At 31 December 2018 (audited)	19,016	807,536	(6,067)	18,038	(237,903)	600,620
Loss for the period	-	-	-	-	(16,361)	(16,361)
Other comprehensive expense for the period	-	-	(867)	-	-	(867)
Total comprehensive expense for the period	-	-	(867)	-	(16,361)	(17,228)
At 30 June 2019 (unaudited)	19,016	807,536	(6,934)	18,038	(254,264)	583,392
Loss for the period	-	-	-	-	(324,123)	(324,123)
Other comprehensive expense for the period	-	-	(7,032)	-	-	(7,032)
Total comprehensive expense for the period	-	-	(7,032)	-	(324,123)	(331,155)
At 31 December 2019 (audited)	19,016	807,536	(13,966)	18,038	(578,387)	252,237
Loss for the period	-	-	-	-	(22,041)	(22,041)
Other comprehensive expense for the period	-	-	(5,207)	-	-	(5,207)
Total comprehensive expense for the period	-	-	(5,207)	-	(22,041)	(27,248)
At 30 June 2020 (unaudited)	19,016	807,536	(19,173)	18,038	(600,428)	224,989

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash (used in) from operating activities	(2,481)	304
Net cash from (used in) investing activities	110	(243)
Net cash used in financing activities	(718)	(3,103)
Net decrease in cash and cash equivalents	(3,089)	(3,042)
Cash and cash equivalents at beginning of the period	3,181	7,387
Effect of foreign exchange rate changes	1,174	(24)
Cash and cash equivalents at end of the period, represented by		
Bank balances and cash	1,266	4,321

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL INFORMATION

China Bozza Development Holdings Limited (the “**Company**”) is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in forestry management, provision of services in relation to management, leasing, sale and installation of container houses, money lending and investment holding.

The Company’s functional currency is Hong Kong dollar (“**HK\$**”) while that for the major subsidiaries in the People’s Republic of China (“**PRC**”) is Renminbi (“**RMB**”). As the operations of the Group are mainly undertaken in the PRC, the directors of the Company consider that it is appropriate to present the condensed consolidated interim financial statements in RMB.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements has been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

Notwithstanding that the current liabilities of the Group at 30 June 2020 exceed the Group’s current assets at that date by RMB194,456,000, which includes the promissory notes payable and the corporate bonds payable amounted to RMB57,479,000 and RMB118,853,000 respectively and that the Group incurred a loss for the six months ended 30 June 2020 amounted to RMB22,041,000, the directors considered it appropriate for the preparation of the condensed consolidated interim financial statements on a going concern basis after taking into account of the following circumstances and measures that are in place or are to be implemented.

Management of the Group will closely monitor the financial position of the Group and the directors of the Company will make every effort (a) to secure funds as necessary to finance the business operations of the Group for the foreseeable future; and (b) to negotiate with the holders of the corporate bonds payable for the extension of repayments of these bonds to a date when the Group has adequate working capital to serve the repayments.

Under these circumstances, the directors of the Company are of the opinion that the Group is able to operate as a going concern for the foreseeable future. No adjustments have been made in the condensed consolidated interim financial statements in the events that the Group is unable to operate as a going concern.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for plantation forest assets, which are measured at fair value.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s audited consolidated financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References 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 Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of 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 and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

4. REVENUE

Revenue represents the aggregate of services income and rental income from container houses business, and interest income from money lending business, analysed as below:

	Six months ended 30 June 2020	Six months ended 30 June 2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Income from provision of services	–	3,083
Rental income from lease of container houses	195	194
Interest income from money lending business	3,664	3,481
	3,859	6,758

Revenue from provision of services in relation to management and leasing of container houses is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation, as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

5. SEGMENT INFORMATION

Information reported to the chairman of the board (being the chief executive decision maker) for the purposes of resources allocation and assessment of segment performance focuses on the type of goods and services delivered. No operating segments identified by the chief operating decision maker has been aggregated in arriving at the reportable segments of the Group.

- (i) Forestry Business — plantation, logging and sale of timber related products
- (ii) Container Houses Business — provision of services in relation to management, leasing, sale and installation of container houses and related business
- (iii) Money Lending Business — provision of money lending services

Information regarding the above segments for the six months ended 30 June 2020 and 2019 is presented below.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

5. SEGMENT INFORMATION (CONTINUED)

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segments:

Six months ended 30 June 2020

	Forestry Business RMB'000 (unaudited)	Container Houses Business RMB'000 (unaudited)	Money Lending Business RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment revenue	–	195	3,664	3,859
Segment (loss) profit	(2,473)	56	(1,370)	(3,787)
Other unallocated income				3,776
Other unallocated expenses				(10,244)
Finance costs				(11,691)
Loss before tax				(21,946)
Income tax expense				(95)
Loss for the period				(22,041)

Six months ended 30 June 2019

	Forestry Business RMB'000 (unaudited)	Container Houses Business RMB'000 (unaudited)	Money Lending Business RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment revenue	–	3,277	3,481	6,758
Segment (loss) profit	(1,610)	(927)	2,030	(507)
Bank interest income				2
Other unallocated income				168
Other unallocated expenses				(3,736)
Finance costs				(12,000)
Loss before tax				(16,073)
Income tax expense				(288)
Loss for the period				(16,361)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

5. SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's assets and liabilities by reportable segments:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Segment assets		
Forestry Business	562,142	564,846
Container Houses Business	9,226	9,144
Money Lending Business	1	252
Total segment assets	571,369	574,242
Unallocated assets	12,310	14,264
Consolidated assets	583,679	588,506
Segment liabilities		
Forestry Business	5,138	6,243
Container Houses Business	3,171	3,630
Money Lending Business	839	509
Total segment liabilities	9,148	10,382
Unallocated liabilities	349,542	325,887
Consolidated liabilities	358,690	336,269

6. INVESTMENT AND OTHER INCOME

	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2019 RMB'000 (unaudited)
Bank interest income	–	2
Sundry income	3,776	168
	3,776	170

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

7. OTHER (LOSSES) GAINS, NET

	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2019 RMB'000 (unaudited)
Impairment losses recognised in respect of		
– trade receivables	–	(160)
– loans receivables	(3,664)	–
Exchange (losses) gains, net	(556)	1,438
Impairment loss on trade receivables reversed	328	–
	(3,892)	1,278

8. FINANCE COSTS

	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2019 RMB'000 (unaudited)
Interest on:		
– promissory notes payable	4,300	3,626
– corporate bonds payable	7,280	8,322
– lease liabilities	111	52
	11,691	12,000

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

9. LOSS BEFORE TAX

	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2019 RMB'000 (unaudited)
Loss before tax has been arrived at after charging:		
Directors' emoluments	1,817	575
Other staff costs	2,849	3,907
Retirement benefits scheme contributions, excluding directors	61	126
Total staff costs	4,727	4,608
Depreciation of property, plant and equipment	97	103
Depreciation of right-of-use assets	2,385	1,341
Rental expenses for short-term lease	–	1,093

10. INCOME TAX EXPENSE

	Six months ended 30 June 2020 RMB'000 (unaudited)	Six months ended 30 June 2019 RMB'000 (unaudited)
Hong Kong Profits Tax	95	207
PRC Enterprise Income Tax	–	119
Current tax	95	326
Deferred tax credit	–	(38)
Income tax expense	95	288

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

10. INCOME TAX EXPENSE (CONTINUED)

A group entity is chargeable to Hong Kong Profits Tax under the two-tiered profits tax rates regime whereby, the first HK\$2 million of assessable profits of the qualifying group entity will be taxed at 8.25%, and assessable profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime are chargeable to Hong Kong Profits Tax at the tax rate of 16.5%.

Pursuant to the laws and regulations of the Cayman Islands and the British Virgin Islands (“**BVI**”), the Group is not subject to any income tax in the Cayman Islands and the BVI.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Pursuant to the Implementation Regulation of the EIT Law, the Group’s PRC subsidiaries which are engaged in forestry business are entitled to full exemption from PRC Enterprise Income Tax in respect of both of the periods presented.

11. DIVIDEND

No dividends were paid or declared during the interim period. The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

12. LOSS PER SHARE

The calculation of loss per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Loss		
Loss for the purpose of basis loss per share		
Loss for the period attributable to the owners of the Company	(22,041)	(16,361)

	Six months ended 30 June	
	2020	2019
	'000	'000
Number of shares		
Number of ordinary shares for the purpose of basic loss per share	11,024,220	11,024,220

The computation of diluted loss per share for the six months ended 30 June 2020 does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for shares for that period. No diluted loss per share is presented as, except as aforementioned, the Company has no potential shares in issue for both of the periods presented.

13. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group had not acquired any property, plant and equipment (six months ended 30 June 2019: RMB243,000). Depreciation of property, plant and equipment recognised in respect of the current period amounted to RMB97,000 (six months ended 30 June 2019: RMB103,000).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

14. PLANTATION FOREST ASSETS

	Hengchang Forest	Kunlin Forest	Senbo Forest	Ruixiang Forest	Wantai Forest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2018 (audited) and at 30 June 2019 (unaudited)	189,000	55,300	63,100	141,000	126,000	574,400
Harvested timber transferred to cost of inventories sold	(1,818)	(1,341)	(1,468)	(2,057)	(2,342)	(9,026)
Changes in fair value less costs to sell	(38,182)	(659)	2,568	(8,943)	(5,658)	(50,874)
At 31 December 2019 (audited) and at 30 June 2020 (unaudited)	149,000	53,300	64,200	130,000	111,800	514,500

(a) Hengchang Forest

On 28 May 2013, the Group acquired the entire equity in China Timbers Limited (“**China Timbers**”) and its subsidiaries (collectively referred to as the “**China Timbers Group**”) which are principally engaged in the operation and management of the forest in Jiange County, Sichuan Province in the PRC (“**Hengchang Forest**”). The Hengchang Forest had a total leasehold land base of approximately 21,045 Chinese Mu (equivalent to approximately 1,403 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Hengchang Forest. During the period under review, no timber logs in respect of the Hengchang Forest were harvested (six months ended 30 June 2019: nil). As at 30 June 2020, the Hengchang Forest is estimated to comprise approximately 1,389 hectares of cypress trees with no tree plantations aged 40 years or older.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

14. PLANTATION FOREST ASSETS (CONTINUED)

(b) Kunlin Forest

On 26 February 2016, the Group acquired the entire equity interest in Exceed Target Investment Group Limited (“**Exceed Target**”) and its subsidiaries (collectively referred to as the “**Exceed Target Group**”) which are principally engaged in the operation and management of the forest in Zhengxing Town, Jiange County, Sichuan Province, the PRC (“**Kunlin Forest**”). Jiange Kunlin Linye Company Limited was transferred from Exceed Target Group to China Timbers Group on 14 November 2018. The Kunlin Forest had a total leasehold land base of approximately 9,623 Chinese Mu (equivalent to approximately 642 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Kunlin Forest. During the period under review, no timber logs in respect of the Kunlin Forest were harvested (six months ended 30 June 2019: nil). As at 30 June 2020, the Kunlin Forest is estimated to comprise of approximately 642 hectares of cypress with no tree plantations aged 40 years or older.

(c) Senbo Forest

On 11 October 2016, the Group acquired the entire equity interest in Huxiang International Holdings Limited (“**Huxiang**”) and its subsidiaries (collectively referred to as the “**Huxiang Group**”) which principally holds plantation forest assets in Yixing Town, Jiange County, Sichuan Province, the PRC (“**Senbo Forest**”). The Senbo Forest had a total leasehold land base of approximately 13,219 Chinese Mu (equivalent to approximately 881 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Senbo Forest. During the period under review, no timber logs in respect of the Senbo Forest were harvested (six months ended 30 June 2019: nil). As at 30 June 2020, the Senbo Forest is estimated to comprise of approximately 881 hectares of cypress with approximately 171 hectares of tree plantations aged 40 years or older.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

14. PLANTATION FOREST ASSETS (CONTINUED)

(d) Ruixiang Forest

On 6 June 2017, the Group acquired the entire equity interest in Garden Glaze Limited (“**Garden Glaze**”) and its subsidiaries (collectively referred to as the “**Garden Glaze Group**”) which principally holds plantation forest assets in Longyuanzhen, Houshixiang and Dianzixiang Town, Jiange County of the Sichuan Province in the PRC (“**Ruixiang Forest**”). The Ruixiang Forest had a total leasehold land base of approximately 30,653 Chinese Mu (equivalent to approximately of 2,044 hectares). All of the forestry ownership certificates of the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Ruixiang Forest. During the period under review, no timber logs in respect of the Ruixiang Forest were harvested (six months ended 30 June 2019: nil). As at 30 June 2020, the Ruixiang Forest is estimated to comprise approximately 2,044 hectares of cypress trees with approximately 9 hectares of tree plantations with aged 40 years or older.

(e) Wantai Forest

On 24 August 2018, the Group acquired the entire equity interest in Today Bridge Limited (“**Today Bridge**”) and its subsidiaries (collectively referred to as the “**Today Bridge Group**”) which principally holds plantation forest assets in Kaifeng Town, Yingshui Village, Guangping Village, Zheba Village, Jiange County of the Sichuan Province in the PRC (“**Wantai Forest**”). The Wantai Forest had a total leasehold land base of approximately 42,814 Chinese Mu (equivalent to approximately of 2,854 hectares). All of the forestry ownership certificates of the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Wantai Forest. During the period under review, no timber logs in respect of the Wantai Forest were harvested (six months ended 30 June 2019: nil). As at 30 June 2020, the Wantai Forest is estimated to comprise approximately 2,854 hectares of cypress with no tree plantations with aged 40 years or older.

(f) Valuation of plantation forest assets

Management is of the view that the fair value less cost to sell of the Group’s plantation forest assets at 30 June 2020 approximates those as at 31 December 2019 and that there has been no significant change in fair value of the Group’s plantation forest assets since 31 December 2019.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

14. PLANTATION FOREST ASSETS (CONTINUED)

(g) Other risks associated with the plantation forest assets

The Group is exposed to a number of risks related to its plantation forest assets:

Regulatory and environmental risks

The Group is subject to laws and regulations in the PRC in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

Climate and other risks

The State Council of the PRC manages the country's harvesting activities by imposing annual logging quotas which are determined by the local forestry authorities. Other than the above-mentioned quotas, the Group's revenue also depends significantly on the ability to harvest wood at adequate levels. The ability to harvest wood and the growth of the trees in the forests may be affected by unfavourable local weather conditions and natural disasters. The Group's standing timbers are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

Supply and demand risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of timber. When possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

15. TRADE AND OTHER RECEIVABLES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade receivables	5,953	7,050
Other receivables	1,961	1,407
	7,914	8,457

The Group generally allows an average credit period of 90 days (31 December 2019: 90 days) to its trade customers, where partial payment in advance is normally required. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice dates:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
0–90 days	–	4,599
91–180 days	–	90
181–365 days	3,592	2,361
Over 365 days	2,361	–
	5,953	7,050

16. LOAN RECEIVABLES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Loan and interests thereon receivable	134,429	130,765
Less: Impairment loss recognised	(134,429)	(130,765)
	–	–

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

17. TRADE AND OTHER PAYABLES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade payables (Note ii)	2,004	1,149
Consideration payable for acquisition of subsidiary	7,667	7,514
Other payables	12,981	10,066
Deposits received	635	1,783
Accrued charges	4,880	2,392
	28,167	22,904

Notes:

- (i) The average credit period on purchase of goods is within 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.
- (ii) The following is an aged analysis of trade payables presented based on invoice dates:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
0-30 days	-	5
Over 90 days	2,004	1,144
	2,004	1,149

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

18. PROMISSORY NOTES PAYABLE

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Promissory notes payable:		
– issued on 6 June 2017 (note a)	23,934	22,723
– issued on 15 August 2018 (note b)	33,545	29,844
	57,479	52,567
Carrying amount payable		
– Within one year	57,479	52,567

Notes:

(a) Promissory note issued on 6 June 2017 (the “Note A”)

On 6 June 2017, the Company issued the Note A with the principal amount of HK\$170,000,000 as the consideration for acquisition of the entire interest in Garden Glaze and its subsidiaries.

Under the agreement relating to the Note A, the Note A is unsecured, carries interest at 5% per annum and is payable on the maturity date of 5 June 2019. On 3 June 2019, the Company entered into a supplemental deed to amend certain terms and conditions of the Note A, pursuant to which the parties thereto agreed to extend the maturity date of the Note A, with the principal amount of HK\$23,800,000 from 5 June 2019 to 5 July 2019. The Company is also entitled to redeem the whole or part the Note A at any time before the maturity date by 7 business days advance notice.

The fair value of the Note A at the date of its issue was estimated to be HK\$148,516,000 (equivalent to RMB129,473,000) as valued by Ascent Partners, using the effective interest rate of 12.21% per annum.

As at 30 June 2020, the Note A with the principal amount of HK\$23,800,000 (31 December 2019: HK\$23,800,000) remained outstanding. The effective interest rate in respect of the Note A at 30 June 2020 is 12.21% per annum (31 December 2019: 12.21% per annum).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

18. PROMISSORY NOTES PAYABLE (CONTINUED)

Notes: (continued)

(b) Promissory note issued on 15 August 2018 (the "Note B")

On 15 August 2018, the Company issued the Note B with the principal amount of HK\$34,100,000 as part of the consideration for acquisition of the entire interest in Today Bridge and its subsidiaries.

Under the agreement relating to the Note B, the Note B is unsecured, carries interest at 5% per annum and is payable on the maturity date of 14 August 2020. The Company is also entitled to redeem the whole or part of the Note B at any time after the issue date to one day before the maturity date.

The fair value of the Note B at the date of its issue was estimated to be HK\$24,934,000 (equivalent to RMB21,825,000) as valued by B.I. Appraisals, an external valuer, using the effective interest rate of 23.27% per annum.

As at 30 June 2020, the Note B with the principal amount of HK\$34,100,000 (31 December 2019: HK\$34,100,000) remained outstanding. The effective interest rate in respect of the Note B at 30 June 2020 is 23.27% per annum (31 December 2019: 23.27% per annum).

19. CORPORATE BONDS PAYABLE

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Unsecured corporate bonds payable:		
– Within one year	118,853	98,015
– More than one year, but not exceeding two years	88,047	31,411
– More than two years, but not exceeding five years	49,013	114,689
– More than five years	9,982	9,468
	265,895	253,583
Less: Amount shown under current liabilities	(118,853)	(98,015)
Amount shown under non-current liabilities	147,042	155,568

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

19. CORPORATE BONDS PAYABLE (CONTINUED)

- (a) On 30 June 2020, the unsecured corporate bonds with the principal amount of HK\$276,000,000 (31 December 2019: HK\$276,000,000) remained outstanding. The effective interest rate of the unsecured corporate bonds ranged from 4.154% to 12.367% per annum.
- (b) During the six months ended 30 June 2020, certain bondholders agreed with the Company to extend the repayment of unsecured corporate bonds with the aggregate principal amounts of HK\$18,820,000, under which the maturity dates of these corporate bonds, ranged from 25 September 2019 to 16 June 2020, was changed to later dates ranged from 17 June 2020 to 10 December 2021, with the other terms of the corporate bonds remained unchanged.

20. OTHER BORROWINGS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Unsecured loans from a third party	1,217	–

The other borrowings carry interest at 3% per annum (2019: Nil), are repayable on 8 March 2021.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

21. SHARE CAPITAL

	Number of ordinary shares '000	Nominal amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.002 per share		
At 31 December 2019 (audited) and 30 June 2020 (unaudited)	50,000,000	100,000

	Number of ordinary shares '000	Nominal amount HK\$'000	Carrying amount RMB'000
<i>Issued and fully paid:</i>			
Ordinary shares of HK\$0.002 per share			
At 31 December 2019 (audited) and 30 June 2020 (unaudited)	11,024,220	22,048	19,016

22. PLEDGE OF ASSETS

As at 30 June 2020 and 31 December 2019, there was no pledge of assets of the Group.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

23. RELATED PARTY TRANSACTIONS

In additions to the transactions with related parties disclosed elsewhere in the condensed consolidated interim financial statements, the Group entered into the following related party transactions during the period.

Remuneration of directors and other members of key management:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries and other allowances	2,715	1,327
Retirement benefits scheme contributions	31	8
	2,746	1,335

24. LITIGATION

On 15 May 2020, the Group received a petition (the "Petition") filed by a holder of the bonds issued by the Group against the Group for an order of winding up the Company. The Petition was filed against the Group for failure to settle the outstanding principal of the bonds and the accrued interest accumulated to an aggregate of HK\$10,158,794, which was included in corporate bonds payable at 30 June 2020 presented in the condensed consolidated statement of financial position. In relation to the Petition, the hearing has been adjourned to Wednesday, 14 October 2020. The Company will make further announcement as and when appropriate, in particular when the Petition could be stayed or withdrawn subject to the order of the Court and following the terms of the settlement agreement of the Petition entered into between the Company and the Petitioner.