ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

中華國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1064)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

INTERIM RESULTS

The Board of Directors (the "Directors") of Zhong Hua International Holdings Limited (the "Company") would like to announce the unaudited consolidated results of the Company for the six months ended 30 June 2022 (the "Interim Results"), together with the comparative figures for the corresponding period in 2021, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2022	2021
		(Unaudited)	*(Unaudited)*
	Notes	***HK$'000***	*HK$'000*
Revenue	2	**15,104**	14,980
Other income and gains		**526**	330
Administrative expenses		**(11,717)**	(12,320)
Finance costs	3	**(795)**	(838)
PROFIT BEFORE TAX	4	**3,118**	2,152
Income tax expense	5	**(2,597)**	(2,505)
PROFIT/(LOSS) FOR THE PERIOD		**521**	(353)
Attributable to:			
Ordinary equity holders of the Company		**1,051**	489
Non-controlling interests		**(530)**	(842)
		521	(353)
PROFIT PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
– Basic		**HK0.15 cents**	HK0.07 cents
– Diluted		**HK0.15 cents**	HK0.07 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Profit/(loss) for the period	**521**	(353)
Other comprehensive income/(expense)		
Other comprehensive income/(expense) that may be reclassified to the income statement in subsequent periods:		
Exchange differences on translation of foreign operations	**(133,737)**	26,613
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD	**(133,216)**	26,260
Attributable to:		
Ordinary equity holders of the Company	**(39,018)**	8,564
Non-controlling interests	**(94,198)**	17,696
	(133,216)	26,260

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2022** **(Unaudited)** **HK$'000**	31 December 2021 *(Audited)* *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**3,716**	4,013
Right-of-use asset		**473**	1,419
Investment properties		**4,374,279**	4,561,214
Total non-current assets		**4,378,468**	4,566,646
CURRENT ASSETS			
Properties held for sale		**30,939**	32,262
Trade receivables	8	**26,175**	21,611
Prepayments, deposits and other receivables		**12,855**	13,368
Cash and bank balances		**66,310**	93,204
Total current assets		**136,279**	160,445
CURRENT LIABILITIES			
Trade payables	9	**(2,060)**	(2,121)
Other payables and accruals		**(54,652)**	(70,101)
Tax payable		**(78,002)**	(79,521)
Lease liability		**(495)**	(1,303)
Total current liabilities		**(135,209)**	(153,046)
NET CURRENT ASSETS		**1,070**	7,399
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,379,538**	4,574,045
NON-CURRENT LIABILITIES			
Loan from a director		**(74,857)**	(78,056)
Due to a director		**(121,059)**	(149,036)
Long term other payables		**(150,185)**	(140,763)
Deferred tax liabilities		**(943,277)**	(982,814)
Total non-current liabilities		**(1,289,378)**	(1,350,669)
Net assets		**3,090,160**	3,223,376
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**17,840**	17,840
Reserves	10	**880,312**	919,330
		898,152	937,170
Non-controlling interests		**2,192,008**	2,286,206
Total equity		**3,090,160**	3,223,376

Notes:

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements for the six months ended 30 June 2022 (the "Period") have been prepared in accordance with the applicable disclosure requirements of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Accounting Standards ("HKAS") 34 – *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated financial statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's consolidated financial statements for the year ended 31 December 2021.

The condensed consolidated financial statements have been prepared under the historical cost convention, except for the investment properties that are measured at fair value. The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company's consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following new and revised standards effective as of 1 January 2022. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018–2020	*Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41*

The adoption of these new and revised HKFRSs did not have material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment is required.

2. OPERATING SEGMENT INFORMATION

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

(a) the property investment segment, which invests in properties located in Mainland China for generating potential income from letting; and

(b) the corporate and other segment, which provides management services to group companies.

The accounting policies of the operating segments are the same as those described in the Company's financial statements for the year ended 31 December 2021.

No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China.

The following table presents revenue and results information on the Group's operating segments:

For the six months ended 30 June

	Property investment		Corporate and others		Total	
	2022	2021	**2022**	2021	**2022**	2021
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**15,104**	14,980	**–**	–	**15,104**	14,980
Segment results	**10,356**	9,560	**(6,969)**	(6,900)	**3,387**	2,660
Other income and gains					**526**	330
Finance costs					**(795)**	(838)
Profit before tax					**3,118**	2,152
Income tax expense					**(2,597)**	(2,505)
Profit/(loss) for the period					**521**	(353)

Information about major customers

For the Period, there was only one single customer (2021: one) with transactions exceeded 10% of the Group's total revenue and its contribution amounted to HK$15,104,000 (2021: HK$14,980,000).

3. FINANCE COSTS

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Interest on:		
Loan from a director	**774**	768
Lease liability	**21**	70
	795	838

4. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**136**	135
Depreciation of right-of-use asset	**946**	946
Interest income	**(428)**	(224)

5. INCOME TAX

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Current – elsewhere		
Charge for the period	**1,745**	1,660
Deferred	**852**	845
Total tax charge for the period	**2,597**	2,505

No provision for Hong Kong profits tax had been made as the Group did not generate any taxable profits in Hong Kong during the Period (2021: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. The subsidiaries established in Mainland China are subject to income taxes at the rate of 25% (2021: 25%).

6. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (2021: Nil).

7. PROFIT PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic profit per share for the Period is based on the profit attributable to ordinary equity holders of the Company of HK$1,051,000 (2021: HK$489,000) and the number of ordinary shares 713,616,520 (2021: 713,616,520) in issue during the Period.

During the six months ended 30 June 2022 and 2021, the Group had no potentially dilutive ordinary shares in issue.

8. TRADE RECEIVABLES

An ageing analysis of the Group's trade receivables at the end of the reporting period is as follows:

	30 June 2022		31 December 2021	
	(Unaudited)		*(Audited)*	
	HK$'000	***Percentage***	*HK$'000*	*Percentage*
Within 6 months	**16,134**	**62**	15,945	74
More than 6 months but within 1 year	**10,041**	**38**	5,666	26
	26,175	**100**	21,611	100

The Group generally grants a credit term of 3 months to 12 months to its customers.

The ageing of the Group's trade receivables is based on the date of recognition of revenue. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

9. TRADE PAYABLES

An ageing analysis of the Group's trade payables at the end of the reporting period is as follows:

	30 June 2022		31 December 2021	
	(Unaudited)		*(Audited)*	
	HK$'000	***Percentage***	*HK$'000*	*Percentage*
More than 1 year	**2,060**	**100**	2,121	100

The ageing of the Group's trade payables is based on the dates of the goods received or services rendered. The trade payables are non-interest-bearing.

10. SHARE PREMIUM REDUCTION

A special resolution was passed at the annual general meeting of the Company held on 14 June 2022 to the effect of cancelling an amount of HK$400,000,000 standing to the credit of share premium account of the Company and the entire credit amount arising from such cancellation to offsetting the equivalent debit amount of accumulated losses of the Company. Accordingly, the relevant credit of share premium account of the Company had been offset with the equivalent debit amount of accumulated losses of the Company.

Further details are disclosed in the circular of the Company dated 11 May 2022 and the announcement of the Company dated 14 June 2022.

FINANCIAL REVIEW

The Company recorded a consolidated revenue of HK$15,104,000 for the Period, representing an increase of approximately 1% compared with the revenue for the corresponding period last year (2021: HK$14,980,000). Profit attributable to ordinary equity holders of the Company for the Period was HK$1,051,000 (2021: HK$489,000).

Adjusted EBITDA

The Adjusted EBITDA of the Company and its subsidiaries (collectively the "Group") for the Period was profit of HK$4,995,000 (2021: HK$4,071,000). Adjusted EBITDA refers to the earnings before interest, tax and depreciation but does not take into account the effect of changes of fair value of investment properties.

Net Profit

The profit before tax of the Group for the Period was HK$3,118,000 (2021: HK$2,152,000) and the profit of the Group for the Period was HK$521,000 (2021: loss of HK$353,000). The results of the Group changed from loss of HK$353,000 for the corresponding period last year to profit of HK$521,000 for the Period was attributable to the slightly decrease of administrative expenses from HK$12,320,000 for the corresponding period last year to HK$11,717,000 for the Period.

Liquidity and Financial Resources

During the Period, the Group's operations were financed mainly by cash flows generated from business operations and borrowings. The Group's net cash flows from operating activities during the Period were HK$210,000 (2021: HK$3,521,000).

As at 30 June 2022, the Group had cash and bank balances of HK$66,310,000 (31 December 2021: HK$93,204,000) and did not have bank borrowings.

As at 30 June 2022, the Group had outstanding borrowings of HK$75,352,000 (31 December 2021: HK$79,359,000) comprising lease liability of HK$495,000 (31 December 2021: HK$1,303,000) and a loan from a director in an amount of HK$74,857,000 (31 December 2021: HK$78,056,000). According to its respective terms, the lease liabilities of HK$495,000 (31 December 2021: HK$1,303,000) is repayable within one year and all are denominated in Hong Kong dollars. The Group's exposure to interest rate fluctuation was minimal in the past years.

The Group's gearing ratio during the Period was 0.02 as at 30 June 2022 (31 December 2021: 0.02), calculated based on the Group's lease liability and loan from a director in an aggregate amount of HK$75,352,000 (31 December 2021: HK$79,359,000) over total assets of HK$4,514,747,000 (31 December 2021: HK$4,727,091,000). The Group maintained a relatively low gearing ratio in the past years.

Assets

As at 30 June 2022, the Group's net current assets, net assets and total assets amounted to HK$1,070,000 (31 December 2021: HK$7,399,000), HK$3,090,160,000 (31 December 2021: HK$3,223,376,000) and HK$4,514,747,000 (31 December 2021: HK$4,727,091,000), respectively.

The Group had two investment properties, one in Chongqing (重慶市) and the other in Guangzhou (廣州市), both in Mainland China. The investment property in Chongqing, which the Group had 100% interest, had carrying amount of HK$407,979,000 (31 December 2021: HK$425,414,000) as at 30 June 2022. The investment property in Guangzhou, which the Group had 25% interest, had carrying amount of HK$3,966,300,000 (31 December 2021: HK$4,135,800,000) as at 30 June 2022.

The Group also had properties situated at Baiyun District (白雲區) and Fangcun District (芳村區) in Guangzhou, all of which were held for sale with book cost of HK$30,939,000 (31 December 2021: HK$32,262,000) as at 30 June 2022.

Exchange Rate Risk

The Group's principal operations are located in Mainland China while the financial statements of these operating subsidiaries are reported in Renminbi. The Company may expose to exchange rate risk when transactions and financial statements of these operating subsidiaries reported in Renminbi are consolidated to the Company's condensed consolidated financial statements which are reported in Hong Kong dollars. The Group did not take measures such as execution of forward hedging or exchange swap instruments to hedge the potential impact arising from adverse currency fluctuation between Renminbi and Hong Kong dollars in the past years. Given the exchange rates between Renminbi and Hong Kong dollars were not fluctuated materially from time to time in the past years, the Group could reasonably assess the trend of exchange rates between the two currencies in order to reduce its adverse impact to the Company's condensed consolidated financial statements as far as practicable.

Charges on Assets

As at 30 June 2022, none of the Group's assets were pledged.

Interim Dividend

The Directors did not recommend the payment of an interim dividend for the Period (2021: Nil).

Share Premium Reduction

A special resolution was passed at the annual general meeting of the Company held on 14 June 2022 (the "Effective Date") to the effect of cancelling an amount of HK$400,000,000 standing to the credit of share premium account of the Company and the entire credit amount arising from such cancellation to offsetting the equivalent debit amount of accumulated losses of the Company. Accordingly, the relevant credit of share premium account of the Company was offset with the equivalent debit amount of accumulated losses of the Company on the Effective Date.

The implementation of the share premium reduction neither involves a reduction in the authorised or issued share capital of the Company nor does it involve any reduction in the nominal value of the shares or the trading arrangements concerning the shares. Save for the expenses incurred by the Company in relation to the share premium reduction, the implementation of the share premium reduction will not, in itself, have any material adverse effect on the underlying assets, liabilities, cash flow or financial position of the Company or the interests of shareholders as a whole.

Further details are disclosed in the circular of the Company dated 11 May 2022 and the announcement of the Company dated 14 June 2022.

FUND RAISING ACTIVITIES

On 15 April 2020, it was announced that the Company entered into a subscription agreement with Link Tide Investments Limited, a private company incorporated in the British Virgin Islands and an independent third party, in respect of subscription and issue of 108,000,000 new shares in the capital of the Company at an issue price of HK$0.15 per share pursuant to the Company's general mandate granted on 18 June 2019 (the "New Issue"). All conditions precedent as set out in the subscription agreement were satisfied and the New Issue was completed on 27 April 2020.

The net proceeds raised from the New Issue applied up to 30 June 2022 are as follows:

Intended use of the net proceeds as stated in the Company's announcement dated 15 April 2020			Proceeds utilised as at 30 June 2022	Proceeds unutilised as at 30 June 2022	
Category	**Net amount** *(HK$ in million)*	**Percentage**	**Net amount** *(HK$ in million)*	**Remaining amount** *(HK$ in million)*	**Expected schedule of use**
Re-development costs of re-development project in Guangzhou, Mainland China	12.0	74.5%	–	12.0	On or before 30 June 2023
General working capital	4.1	25.5%	4.1	–	–
Total	**16.1**	**100%**	**4.1**	**12.0**	

The Group held the unutilised net proceeds in short-term deposits with banks as at 30 June 2022.

BUSINESS REVIEW

The Company is an investment holding company. Its subsidiaries are principally engaged in property development, investment and management businesses in Mainland China and have two major property interests, one in Chongqing (重慶市) and the other in Guangzhou (廣州市).

Guang Yu Square in Chongqing

The Group's property interest in Chongqing is situated at Chaotinmen, Yuzhong District, Chongqing (重慶市渝中區朝天門). With a history of over five centuries and situated in the northeast of Yuzhong District and at the delta of Yangtze River (長江) and Jianing River (嘉寧江), Chaotinmen is the most prominent port in Chongqing for transporting goods and passengers to and from the Three Gorges (三峽). Guang Yu Square (港渝廣場) is located at the junction of Chao Dong Road (朝東路) and Shanxi Sixth Lane (陝西六巷) in Chaotinmen which is within walking distance of about 15 minutes to the Port of the Three Gorges (三峽碼頭) and walking distance of about 20 minutes to Jiafangbei (解放碑), the most prime shopping area in Chongqing as well as with walking distance of about 5 minutes to Raffles City Chongqing (重慶來福仕廣場), the newly developed and most spectacular commercial landmark in Chongqing and within walking distance of about 10 minutes to Chaotinmen Square (朝天門廣場), which is one of the most famous sightseeing points in Chongqing.

Guang Yu Square is a 15-storey commercial building with a total gross floor area of about 49,400 square metres, out of which the Group owns portion of Basement, Levels 1 to 4, Levels 8 and 11 with total gross floor area of about 24,400 square metres. The property, which has been fully refurbished in 2016, is presently a multi-floor shopping mall focusing in wholesale and retailing of men's wear and footwear. There are about 50–70 shops per level with shop area ranging from 20–60 square metres per shop. Most shops are leased to unsolicited third parties for a term of about one year renewable automatically with prevailing market rental. The shopping mall (the floors owned by the Group) is almost fully occupied and shop turnover rate is maintained at a relatively low level. Given Chaotinmen has been one of the major clothing distribution points in Chongqing for nearby cities and the Three Gorges region for decades, Guang Yu Square is one of the most popular men's wear and footwear wholesale points in the region.

Notwithstanding the Chongqing Municipal People's Government (重慶市人民政府) continued to implementing the "Zero COVID-19" policy ("新冠病毒清零" 政策) and extreme heatwave recorded this summer, the business operation of Guang Yu Square remained usual and normal during the Period except for temporary knockdown due to minor COVID-19 outbreak surged from time to time. Rental revenue, however, was not materially affected during the Period as most leases for 2022 were committed in late December 2021.

The Re-development Project in Guangzhou

The Group's property interest in Guangzhou is situated at Yuexiu District, Guangzhou (廣州市越秀區). The re-development site, previously named as Metropolis Shoes City (廣州大都市鞋城), is located at the east of Jiefang Road South (解放南路), to the south of Daxin Road (大新路), to the north of Yede Road (一德路) and to the west of Xieen Lane (謝恩里) in Yuexiu District which is within walking distance of about 3 minutes to the Old Hall (舊館) of the Canton Fair (廣州交易會), which was once the only export window in Mainland China before its Reform and Open Door Policy (改革開放政策) implemented in 1978, and within walking distance of about 5 minutes to the riverbank of the Pearl River (珠江), the icon of Guangzhou.

The Metropolis Shoes City (before operation ceased in August 2019) was a 2-storey non-permanent building with gross floor area of about 14,700 square metres and about 500 shops. With a history of over one century for footwear wholesale business in the region, the Metropolis Shoes City was the most popular footwear boutique showcase and wholesale centre in Guangzhou.

The Metropolis Shoes City ceased operation in August 2019 for re-development purpose. The Yuexiu District People's Government (越秀區人民政府) (the "Yuexiu Government") expressed that they would use their best endeavors to support the re-development plan of Guangzhou Zheng Da Real Estate Development Company Limited (廣州正大房地產開發有限公司) ("GZ Zheng Da"), an indirect subsidiary of the Group.

As requested by the Yuexiu Government for celebrating the centennial establishment of the Chinese Communist Party (中國共產黨成立百週年誌慶), the platform of the re-development site was topped with cement with green work for temporary carpark purpose in mid 2021.

As to-date, except for one block of building remained not yet surrendered (尚未完成拆遷) and a few shops next to the mall continued to operate business as usual, the Metropolis Shoe City was demolished and the re-development site was leased to a third party for licensed carpark operation.

Pending to the surrender of the last block of a 7-storey building being occupied by an individual owner (小業主), the re-development project is intended to be developed into a 22-storey versatile grade A commercial building complex with twin towers and 3-level of basement for wholesale and exhibition hall facilities, office and service apartment uses with ancillary facilities such as carpark and loading/unloading bays with total gross floor area of about 234,000 square metres. It is also planned that the basement of the new building complex will be linked via subway to two metro stations, namely Yide Lu Station (一德路站) and Haizhou Square Station (海珠廣場站).

In early 2021, the State Council re-launched new urban policy directive to encourage the re-mapping of commercial zone to residential zone in first-tier cities with an objective of decreasing the over-supply of commercial properties (due to the boom of e-commerce) as well as increasing the supply of residential properties in the market. The Group carried out preliminary feasibility study on this new policy and expected that the investment return of the new development project would be significantly improved if in case part of the re-development could be modified from service apartment to residential property. The Group was confident that the re-mapping policy would be on agenda soon once the consolidation of property development market nationwide was on track.

The property market crisis emerged in late 2021 blew up the property market boom nationwide and its impact remained unrelieved and unavoidably hit the property market sentiment in Guangzhou during the Period. Nevertheless, GZ Zheng Da's re-development plan remained on track as it required very limited capital resources at its planning stage.

According to the latest construction schedule (assuming construction commences in the first quarter of 2023), it is expected that the development project will take about four years and be completed by two phases, the first of which will be completed in late 2025 and the second stage will be completed in first quarter of 2027. Subject to the grant of inspection and safety permits by the relevant regulatory authorities, it is expected that the new commercial complex will commence business and generate rental revenue to the Group at its earliest in early 2026.

The development project will be constructed with a budgeted cost of about RMB1,700 million (HK$1,989 million), of which the Group and the related parties will bear 25% and 75% of the total costs, respectively (assumed on the basis that the Group held 25% interest in the re-development project as to-date). It is intended that the construction costs will be financed by bank borrowings (with pledge of the Group's property assets), project financing, equity financing and new funds of potential investors. In certain circumstances, the potential contractors and building materials suppliers will advance working capital to the re-development project, which is a common industry practice in Mainland China.

Notwithstanding the re-development project in Guangzhou ceased to contribute significant revenue to the Group in coming years, it is expected that it will continue to generate rental income from a few remaining units not yet demolished and temporarily carpark until the construction work commences.

The subject asset will remain as an investment property under Hong Kong Accounting Standard 40 – *Investment Property* and be measured at its fair value with changes in fair value recognised in the Group's financial statements for subsequent financial years. It is expected that the new commercial complex will be held for earning rentals and capital appreciation purposes upon completion.

Meantime, the Group will proactively explore other income sources and new business projects in Guangzhou in order to compensate the revenue forgone due to the closure of the wholesale mall in 2019.

Properties Held for sale

The Group had a portfolio of about 190 residential units ranging from 20 square metres to 70 square metres each unit with total gross area of about 11,070 square metres. These residential units were constructed in late 1990s for the purpose of interim resettlement of occupiers who surrendered their units for demolition of the development site in Yuexiu District but remained unoccupied as to-date. Most of these residential units are first-hand units.

These properties represent five clusters of residential units situated at Baiyun District (白雲區) and Fangcun District (芳村區) in Guangzhou with convenient traffic access. Given all these units were completed for more than two decades, they are subject to refurbishment before launch for sale in the market. It is expected that these units will be well perceived by the first-time home buyers once they re-establish confidence in property investment.

MATERIAL ACQUISITION UPDATE

The Group was engaged in a material acquisition (the "Acquisition"), details of which were disclosed in the "Material Acquisition Update" section as contained in the Company's annual report for the year ended 31 December 2021 (the "Annual Report 2021"). Below is the latest development of the Acquisition since 29 March 2022, the date of publication of the Annual Report 2021.

In June 2022, the Group and the related vendors executed an extension agreement to explore opportunity to arrive any revised terms for the settlement of and the consideration for, and completion timetable in relation to the acquisition of the remaining 75% indirect interest in the re-development project in Guangzhou (as described in detail in the above section) not later than the revised long stop date which was further deferred to 30 June 2023. The Directors perceived that completion of remaining tranches of the Acquisition would be in the interest of the Group as a whole. If a revised agreement is concluded, it is anticipated that the Acquisition will be financed by debt financing, equity financing, bank borrowings or a combination of the three kinds.

If in case the Acquisition lapses on 30 June 2023, no party shall be liable to each other. If this happens, the Group will no longer deem control over Zheng Da Real Estate Development Company Limited ("HK Zheng Da") and GZ Zheng Da, its wholly-owned subsidiary, and there will be a major accounting adjustment to the consolidated financial statements of the Company for the year ending 31 December 2023 to the effect that HK Zheng Da will be regarded as an associated company with a 25% equity interest but not a 25%-owned subsidiary of the Company. Further announcement will be made once a concrete decision is made by the Group.

LIQUIDATION DISMISSAL ORDER UPDATE

In May 2021, GZ Zheng Da received a written judgement (民事裁定書) from the Guangdong Provincial Guangzhou Municipal Intermediate People's Court (廣東省廣州市中級人民法院) (the "Guangzhou Court"). The written judgement granted an order to the effect that a compulsory liquidation petition (the "Alleged Liquidation Petition") pleaded by 廣州市越秀房地產開發經營有限公司 ("越房私企") (a third party which is neither a shareholder nor creditor of GZ Zheng Da) was turned down (駁回強制清算申請裁定) (the "Liquidation Dismissal Order (清算駁回裁定)") based on the grounds that "the two co-operative partners of GZ Zheng Da had major disputes on company dissolution or not, major assets and equity interest matters while such disputes had remained not yet on trial or arbitrated for affirmation at the court (雙方股東對於廣州正大是否發生解散事由、公司主要財產以及公司股東股權尚有較大爭議，且爭議至今未經訴訟或者仲裁予以確認)".

In the Liquidation Dismissal Order, the Guangzhou Court ascertained that GZ Zheng Da remained "in operation (在業)" and that HK Zheng Da had 100% equity interest in GZ Zheng Da.

The Liquidation Dismissal Order was the first court paper in relation to the Alleged Liquidation Petition that GZ Zheng Da had ever received from the Guangzhou Court, which was over 10 years from the alleged plead made by 越房私企 in 2009. The Company was pleased to acknowledge receipt of the Liquidation Dismissal Order ruling that 越房私企 did not possess the prerequisites for pleading a liquidation petition against GZ Zheng Da.

The Company perceives that the Liquidation Dismissal Order casts out the legal uncertainties of GZ Zheng Da which have hampered its operation for about a decade and will expedite the re-development plan of GZ Zheng Da.

越房私企 submitted an appeal to the Liquidation Dismissal Order (the "Dismissal Order Appeal") in late May 2021 as permissible by law. The Dismissal Order Appeal was heard in January 2022 but ruling was not yet made up as to-date.

Taking into account the facts and legal grounds substantiated in the Liquidation Dismissal Order and the opinion given by PRC legal counsel and advisers, the Company remains optimistic in obtaining a favourable judgement in the Dismissal Order Appeal.

MATERIAL LITIGATION UPDATE

Background and developments of the Group's material litigations were summarised in the "Background of Material Litigation" and "Material Litigation Update" sections of the Annual Report 2021. All these cases were instituted more than five years ago.

As advised by the Company's PRC legal counsel, cases (a) and (c) mentioned above are not yet concluded while case (c) may have financial impact to the Group if the rulings are unfavourable to the Group. Case (b) was concluded and claims were fully settled in April 2021. The financial impact of case (b) had been fully provided or reflected in the Company's financial statements for previous financial years and the information reported therein is for information purpose only.

Cases (a) and (c) did not have new developments during the Period.

The Company's view on these litigation cases expressed in the Annual Report 2021 remains applicable as to-date. The Company remains optimistic in obtaining favorable judgements in cases (a) and (c).

OUTLOOK

The challenges arising from the COVID-19 pandemic in Mainland China and Hong Kong remain strenuous with cross border travelling restrictions imposed between Mainland China and Hong Kong as well as travelling aboard. In view of the severity of the outbreak, it is necessary and appropriate to accord priority to the health and safety of all personnel when performing their duties. The Directors are striving with its staff to adhere to stringent hygiene standards in offices and shopping areas.

China is one of the few nations adopting "Zero-COVID" policy albeit many other nations uplifting most of their quarantine and social distancing measures in this third year of COVID-19 pandemic. The knockdown measures imposed in major cities, particularly in Shanghai, in the second quarter of this year devastatingly hit the economy and supply chain nationwide. It is premature at this stage to assess if such massive containment measures in combating COVID-19 pandemic will continue or be relaxed in the fourth quarter of this year, hence premature, if not difficult, to assess the economic performance of China for 2022.

Domestically, the Chinese Central Government has been focusing on tackling the property sector blow, the economic recovery nationwide, the widespread drought in inner provinces and the anticipated power shortages in coming fall as well as the COVID-19 pandemic. On the international front, disturbances stemming from the protracted Russia-Ukraine war, lingering tensions with Washington Administration and its allies, the anticipated US Federal Reserve's interest rate hike and global inflation threat as well as the surge of global oil, mineral and food commodities prices are factors that posing challenges to the economic acceleration of China this year.

The impact of recent COVID-related restrictions makes it difficult for China to fundamentally reverse its downward economic trend in the second half of this year. While unveiling a new 19-point policy package to add another RMB1 trillion worth of stimulus spending, the State Council warned in late August that "marginal fluctuations still remain and foundation of an economic recovery is not solid" in the country. It is generally perceived that China would be difficult to meet the GDP growth target of "around 5.5 percent" set by the State Council for 2022.

The property sector crisis nationwide hit the sluggish economy further. It appears that the Chinese Central Government has lowered the benchmark interest rate and given directives to leading commercial banks to boost liquidity in the property sector since first quarter of this year. It is expected that the property development market will remain tiring until and when the capital supply in this sector is refuelled and it will take time for market to recover until confidence re-establishes among investors and end-users.

The Key Speech (重要講話) presented by China's President at the 25th anniversary of Promulgation of Basic Law (基本法頒佈廿五週年誌慶) in Hong Kong emphasised that capitalism and common law system will continue to sustain as long term policies in Hong Kong under the framework of "One Country Two Systems". The Directors have confidence that this assurance will keep Hong Kong moving on and prospering in the longer term (行穩致遠). The Directors love China and Hong Kong (愛國愛港) and fully support "The Patriots to Administrate Hong Kong" (全力支持愛國者治港方針) as well as "The Hong Kong Administration to govern in accordance with the Basic Law" (全力支持香港特區政府依法施政) policies.

The Chinese Communist Party, the ruling party of China, marched to its second centennial era in 2022. The Directors wish the Chinese Communist Party will uphold "Perseverance is road to triumph" (堅持就是勝利) and build a wealthy and strong China.

Looking ahead, 2022 remains a tough year for both Mainland China and Hong Kong. The Directors will be cautious in deploying the Group's resources to encounter the aforesaid challenges in the fourth quarter of this year.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30 June 2022, the Group had about 24 (31 December 2021: 24) employees. Total staff costs (including directors' remuneration) for the Period amounted to HK$3,916,000 (2021: HK$4,149,000).

Remuneration policies are reviewed regularly by the Directors and by the remuneration committee in respect of remuneration of directors and senior management. The Group values all employees and recognises their contributions and is committed to establishing fair and caring relationship with its employees by offering competitive compensation packages comparable to market benchmarks.

CODE ON CORPORATE GOVERNANCE PRACTICE

Throughout the Period, the Company generally complied with the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules.

Further information on the Company's corporate governance practices throughout the Period will be disclosed in the forthcoming interim report of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company had adopted the Model Code for Securities Transactions as set out in the Appendix 10 to the Listing Rules regarding code of conduct of securities transactions by its directors. Having made specific enquiry of the Directors, the Company confirmed that the Directors had complied with required standard set out in the aforesaid code throughout the Period.

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

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

REVIEW BY AUDIT COMMITTEE

The Group's unaudited condensed consolidated financial statements for the Period had been reviewed by the audit committee of the Company.

PUBLICATION OF THE INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2022

The Company's interim report for the six months ended 30 June 2022 will be despatched to shareholders and will be published on the website of Hong Kong Exchange and Clearing Limited (www.hkex.com.hk) as well as the website of the Company (www.zhonghuagroup.com) as soon as practicable.

By Order of the Board
Ho Kam Hung
Executive Director

Hong Kong, 31 August 2022

As at the date of this announcement, the board of directors of the Company comprises: (i) Ho Kam Hung as executive director; (ii) Young Kwok Sui as non-executive director; and (iii) Tam Kong, Lawrence, Wong Miu Ting, Ivy and Wong Kui Fai as independent non-executive directors.