ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

中華國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1064)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

This announcement is made pursuant to Rules 13.49(1) and (2) of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The board of directors (the "Directors") of Zhong Hua International Holdings Limited (the "Company") would like to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020 (the "Annual Results"), together with the comparative figures and the relevant explanatory notes, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

	Notes	**2020** **HK$'000**	2019 HK$'000
REVENUE	2	**24,423**	41,732
Other income and gains		**643**	917
Changes in fair value of investment properties		**5,936**	(77,970)
Administrative expenses		**(25,743)**	(37,468)
Finance costs	3	**(5,699)**	(6,016)
LOSS BEFORE TAX	4	**(440)**	(78,805)
Income tax credit/(expense)	5	**(4,498)**	16,706
LOSS FOR THE YEAR		**(4,938)**	(62,099)
Attributable to:			
Ordinary equity holders of the Company		**(6,576)**	(18,505)
Non-controlling interests		**1,638**	(43,594)
		(4,938)	(62,099)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
– Basic		**HK$(0.01)**	HK$(0.03)
– Diluted		**HK$(0.01)**	HK$(0.03)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020	2019
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(4,938)**	(62,099)
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	**186,160**	(80,454)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR	**181,222**	(142,553)
Attributable to:		
Ordinary equity holders of the Company	**49,823**	(42,620)
Non-controlling interests	**131,399**	(99,933)
	181,222	(142,553)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	**2020** **HK$'000**	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**4,182**	4,187
Right-of-use asset		**3,312**	1,212
Investment properties		**4,415,971**	4,150,272
Total non-current assets		**4,423,465**	4,155,671
CURRENT ASSETS			
Properties held for sale		**37,003**	34,826
Trade receivables	8	**4,154**	19,135
Prepayments, deposits and other receivables		**13,136**	12,624
Cash and bank balances		**86,407**	77,268
Total current assets		**140,700**	143,853
CURRENT LIABILITIES			
Trade payables	9	**(2,090)**	(1,956)
Other payables and accruals		**(64,434)**	(59,014)
Tax payable		**(60,656)**	(56,587)
Lease liability		**(1,876)**	(1,269)
Total current liabilities		**(129,056)**	(118,826)
NET CURRENT ASSETS		**11,644**	25,027
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,435,109**	4,180,698
NON-CURRENT LIABILITIES			
Loan from a director		**(76,136)**	(71,658)
Due to a director		**(157,891)**	(171,636)
Long term other payables		**(137,969)**	(130,554)
Deferred tax liabilities		**(949,617)**	(891,981)
Lease liability		**(1,304)**	–
Total non-current liabilities		**(1,322,917)**	(1,265,829)
Net assets		**3,112,192**	2,914,869
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	10	**17,840**	15,140
Reserves		**888,128**	824,904
		905,968	840,044
Non-controlling interests		**2,206,224**	2,074,825
Total equity		**3,112,192**	2,914,869

Notes:

1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

Except for other amendments to HKFRSs which are not relevant to the preparation of the Group's financial statements above, the nature and the impact of the *Conceptual Framework for Financial Reporting 2018* are described below:

Conceptual Framework for Financial Reporting 2018 (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The adoption of the Conceptual Framework for the current year did not have any significant impact on the financial position and performance of the Group.

2. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue represents gross income from letting investment properties less any applicable taxes.

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments 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 others segment, which provides management services to group companies.

The management of the Group monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from operations. The adjusted profit/(loss) before tax from operations is measured consistently with the Group's profit before tax from operations except that other income and gains and finance costs are excluded from such measurement. Segment assets exclude cash and bank balances as it is managed on a group basis. Segment liabilities exclude tax payable, deferred tax liabilities, lease liability and a loan from a director as these liabilities are managed on a group basis.

	Property Investment		Corporate and Others		Total	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Sales to external customers	**24,423**	41,732	**–**	–	**24,423**	41,732
Segment results	**18,478**	(59,020)	**(13,862)**	(14,686)	**4,616**	(73,706)
Other income and gains					**643**	917
Finance costs					**(5,699)**	(6,016)
Loss before tax					**(440)**	(78,805)
Income tax credit/(expense)					**(4,498)**	16,706
Loss for the year					**(4,938)**	(62,099)
Segment assets	**4,473,834**	4,220,361	**3,924**	1,895	**4,477,758**	4,222,256
Unallocated assets					**86,407**	77,268
Total assets					**4,564,165**	4,299,524
Segment liabilities	**343,937**	321,700	**18,447**	41,460	**362,384**	363,160
Unallocated liabilities					**1,089,589**	1,021,495
Total liabilities					**1,451,973**	1,384,655
Other segment information						
Depreciation of property, plant and equipment	**252**	255	**–**	–	**252**	255
Depreciation of right-of-use asset	**–**	–	**2,000**	2,078	**2,000**	2,078
Changes in fair value of investment properties	**(5,936)**	77,970	**–**	–	**(5,936)**	77,970

Geographical information

Revenues are attributed to the segments based on the locations of the customers, and assets are attributed to the segments based on the locations of the assets. No geographical information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

Information about major customers

Revenue from one (2019: four) customer, each of which accounted for revenue exceeding 10% of the Group's total revenues, amounted to HK$24,423,000 (2019: HK$41,732,000).

3. FINANCE COSTS

	2020 *HK$'000*	2019 *HK$'000*
Interest on:		
Bank loans	–	231
Loan from a director	**5,604**	5,654
Lease liability	**95**	131
	5,699	6,016

4. LOSS BEFORE TAX

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

	2020 *HK$'000*	2019 *HK$'000*
Depreciation of property, plant and equipment	**252**	255
Depreciation of right-of-use asset	**2,000**	2,078
Bank interest income	**(439)**	(382)
Changes in fair value of investment properties	**(5,936)**	77,970

5. INCOME TAX

	2020 *HK$'000*	2019 *HK$'000*
Current – elsewhere		
Charge for the year	**2,839**	6,697
Deferred	**1,659**	(23,403)
Total tax charge/(credit) for the year	**4,498**	(16,706)

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2019: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the regions in which the Group operates. The assessable profit of the subsidiaries established in Mainland China are subject to income taxes at a tax rate of 25% (2019: 25%).

6. FINAL DIVIDEND

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

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

The calculation of the basic loss per share is based on the loss for the year attributable to ordinary equity holders of the Company of HK$6,576,000 (2019: loss HK$18,505,000), and the weighted average number of ordinary shares of 679,091,930 (2019: number of shares of 605,616,520) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

8. TRADE RECEIVABLES

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

	2020		2019	
	HK$'000	***Percentage***	*HK$'000*	*Percentage*
Within 6 months	**4,154**	**100**	12,320	64
More than 6 months but within 1 year	**–**	**–**	6,815	36
	4,154	**100**	19,135	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 trade payables as at the end of the reporting period is as follows:

	2020		2019	
	HK$'000	***Percentage***	*HK$'000*	*Percentage*
More than 1 year	**2,090**	**100**	1,956	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 CAPITAL

	2020	2019
	HK$'000	*HK$'000*
Authorised:		
4,000,000,000 (2019: 4,000,000,000) ordinary shares of HK$0.025 (2019: HK$0.025) each	**100,000**	100,000
Issued and fully paid:		
713,616,520 (2019: 605,616,520) ordinary shares of HK$0.025 (2019: HK$0.025) each	**17,840**	15,140

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

	Number of shares in issue	**Share capital**	**Share Premium**
		HK$'000	*HK$'000*
At 1 January 2020	605,616,520	15,140	398,726
Issue of shares *(note)*	108,000,000	2,700	13,500
Share issue expense	–	–	(99)
At 31 December 2020	713,616,520	17,840	412,127

Note:

On 15 April 2020, the Company entered into a subscription agreement with Link Tide Investments Limited, an independent third party, in respect of subscription and issue of 108,000,000 new ordinary shares of the Company at an issue price of HK$0.15 per share pursuant to the Company's general mandate. All conditions precedent as set out in the subscription agreement were satisfied and the subscription was completed on 27 April 2020. Accordingly, 108,000,000 ordinary shares were issued and allotted to Link Tide Investments Limited for a total cash consideration before expenses of HK$16,200,000.

Further details of the above were disclosed in the Company's announcements dated 15 April 2020 and 27 April 2020.

There were no movements in the Company's issued ordinary share capital and share premium during the year ended 31 December 2019.

FINANCIAL REVIEW

The Group recorded a revenue of HK$24,423,000 (2019: HK$41,732,000) for the year ended 31 December 2020. Net loss attributable to ordinary equity holders of the Company for the year was HK$6,576,000 (2019: loss HK$18,505,000). The decrease of the Group's turnover during the year was attributable to the closure of the wholesale centre in Guangzhou, Mainland China in August 2019.

The substantial decrease of the Group's loss before tax during the year was attributable to (i) a fair value gain of the Group's investment properties of HK$5,936,000 as at 31 December 2020 as compared with a fair value loss of the Group's investment properties of HK$77,970,000 at the year-end date of previous year; and (ii) a decrease of the Group's administrative expenses by HK$11,725,000 for the current year as compared with previous year.

Adjusted EBITDA

The Adjusted EBITDA of the Group for the year ended 31 December 2020 was profit of HK$1,575,000 (2019: profit of HK$7,514,000). 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.

Liquidity and Financial Resources

During the year, the Group's operations were financed mainly by cash flows generated from business operations, new issue and borrowings. The Group's net cash flows from operating activities during the year were HK$18,776,000 (2019: HK$12,538,000).

As at 31 December 2020, the Group had cash and bank balances of HK$86,407,000 (2019: HK$77,268,000).

As at 31 December 2020, the Group had outstanding borrowings of HK$79,316,000 (2019: HK$72,927,000) comprising lease liability of HK$3,180,000 (2019: HK$1,269,000) and a loan from a director in an amount of HK$76,136,000 (2019: HK$71,658,000). According to their respective terms, the lease liabilities of HK$1,876,000 (2019: HK$1,269,000) and HK$1,304,000 (2019: nil) are repayable within one year and in the second year, respectively, all denominated in Hong Kong dollars. The Group's exposure to interest rate fluctuation was minimal in the past years.

The Group's gearing ratio was 0.02 as at 31 December 2020 (2019: 0.02), calculated based on the Group's lease liability and loan from a director in an aggregate amount of HK$79,316,000 (2019: HK$72,927,000) over total assets of HK$4,564,165,000 (2019: HK$4,299,524,000). The Group maintained a relatively low gearing ratio in the past years.

FUND RAISING ACTIVITIES

On 15 April 2020, the Company entered into a subscription agreement (the "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 (the "New Issue"). These new shares, if issued, would represent (i) approximately 17.8% of then issued share capital of the Company as at the date of the Subscription Agreement; and (ii) approximately 15.1% of then issued share capital of the Company as enlarged by 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. Accordingly, 108,000,000 new shares were issued and allotted to Link Tide Investments Limited at an issue price of HK$0.15 per share pursuant to the Company's general mandate. The gross proceeds of the New Issue were HK$16,200,000. The net proceeds (after deducting all applicable costs and expenses of the subscription) of HK$16,100,000 were intended to be applied as HK$12,000,000 towards to the re-development costs of the Company's development project in Guangzhou, Mainland China and the balance of HK$4,100,000 as general working capital purposes of the Group.

Further details of the New Issue were disclosed in the Company's announcements dated 15 April 2020 and 27 April 2020.

Details of the new proceeds utilised up to 31 December 2020 are as follows:

	Net proceeds (HK$ million)		
	Available	**Utilised**	**Unutilised**
Redevelopment costs of redevelopment project in Guangzhou, Mainland China	12.0	–	12.0
General working capital	4.1	4.1	–
	16.1	4.1	12.0

The Group held the unutilised net proceeds in short-term deposits with a bank in Hong Kong as at 31 December 2020.

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). Guang Yu Square (港渝廣場) 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 40-50 shops per level with shop area ranging from 20-60 square metres per shop. In general, the 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.

Following the commencement of business of the Raffles City Chongqing (owned and operated by third parties) in late 2019, Guang Yu Square extended business hours from 4 pm to 8 pm for attracting more walk-in customers. Barring from the temporary closure of the shopping mall as interrupted by the COVID-2019 pandemic, the business operation of Guang Yu Square had resumed to normal and usual since April 2020.

The Development Project in Guangzhou

The Group's property interest in Guangzhou is situated at Yuexiu District, Guangzhou (廣州市越秀區). In order to support the Renovation Scheme for Old Zones in Guangzhou (廣州市老城區改造提升工程) promulgated by the Guangzhou Municipal People's Government (廣州市人民政府) and the Upgrade Programme of Jiefang Road South for the 70th National Day Celebration (迎賀建國七十週年美化解放南路一帶外貌設施) implemented by the Yuexiu District People's Government (越秀區人民政府) (the "Yuexiu Government"), the Metropolis Shoes City (大都市鞋城) ceased operation in August 2019 for re-development purpose. The Yuexiu Government expressed that they would use their best endeavors to support the Group's re-development plan.

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 premise continued to operate business as usual, the Metropolis Shoes City (大都市鞋城) was demolished and the development site was leased to a third party for licensed carpark operation.

The re-development project was 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).

Recently, the State Council 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 hence commenced 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 for residential purpose. Despite the planning work was interrupted by the COVID-2019 pandemic in early 2020, negotiations with various governmental authorities are underway with an aim to mapping out a final re-development plan as soon as practicable.

According to the latest construction schedule, 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 2023 and the second stage will be completed in late 2025. Subject to the grant of inspection and safety permits by the relevant regulatory authorities, it is expected that the new complex will commence business and generate rental revenue to the Group at its earliest in 2024.

The development project will be constructed with a budgeted cost of about RMB1,700 million (HK$2,023 million), of which the Group and the 75% equity holders will bear 25% and 75% of the total costs, respectively (assumed on the basis that the Group held 25% interest in the 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 development project, which is a common industry practice in Mainland China.

Notwithstanding the 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, temporarily carpark and festival bazaar in 2021 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 last year.

Properties held for sale

The Group had a portfolio of about 220 residential units ranging from 20 square metres to 70 square metres each unit with total gross area of about 12,880 square metres. These residential units were constructed in late 1990s for the purpose of interim resettlement of occupiers who surrendered their units to Guangzhou Zheng Da Real Estate Development Company Limited (廣州市正大房地產開發有限公司)("GZ Zheng Da") for demolition in the development site in Yuexiu District but remained unoccupied as at year end date.

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.

MATERIAL ACQUISITION UPDATE

The Group was engaged in a material acquisition, details of which are disclosed in the Company's annual report for the year ended 31 December 2019 (the "Annual Report 2019"). Below is the latest development of the Acquisition (as defined in the aforesaid section) since 17 April 2020, the date of publication of the Annual Report 2019.

In June 2020, 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 HK Zheng Da (as defined in the aforesaid section) not later than the revised long stop date which was further deferred to 30 June 2021. 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 2021, no party shall be liable to each other. If this happens, the Group will no longer deem control over HK Zheng Da and its subsidiary and there will be a major change of accounting treatment 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 in the consolidated financial statements of the Company for the year ending 31 December 2021. Further announcement will be made once a concrete decision is made by the Group.

MATERIAL LITIGATION UPDATE

Background and developments of the following litigation cases in the past years (up to 31 December 2019) are disclosed in the Annual Report 2019. Terms used below shall adopt the same meanings as defined in the above section. Latest developments of those litigation cases for the reporting year are summarised as follows:

(a) Reference is made to a writ of summons served by GZ Zheng Da against 越房私企 at the Yuexiu Court in December 2008 pleading, inter alia, for endorsement of disqualification of 越房私企 as a partner of the underlying Sino-foreign co-operative joint venture.

    There was no new development of this case up to the date of this announcement.

    Taking into account the rulings granted by the Yuexiu Court in July 2009, the facts and legal grounds substantiated at the first hearing of the Zheng Da Appeal, and the opinion given by the PRC legal counsel and advisers, the Company remains optimistic in obtaining a favourable judgement in the Zheng Da Appeal.

(b) Reference is made to a writ of summons served by the Payer against CQ Smart Hero at the Yuzhong Court in 2009 in relation to a claim against a down payment transaction executed in 1996.

    In August 2020, the Chongqing Municipal Higher People's Court (重慶市高級人民法院) declined the review plead (再審申請) lodged by CQ Smart Hero against the ruling made by the Fifth Intermediate Court.

    In December 2020, both CQ Smart Hero and the Payer entered into a settlement agreement to the effect that the unsettled claim in an aggregate amount of approximately RMB2,718,000 (approximately HK$3,234,000) to be settled by installments in 2021. The relevant amounts had been accounted for in the Company's consolidated financial statements for the year ended 31 December 2020.

(c) Reference is made to a writ of summons served by two plaintiffs, together with CQ Smart Hero in its capacity as the third plaintiff, against the Ex-Partner at the Yuexiu Court in 2011 in relation to a contract dispute (合同糾紛).

In June 2020, the Guangzhou Court ruled that the final compensation amount, court fees and expenses for settlement of the Ex-Partner's claim were in an aggregate amount of approximately RMB6,150,000 (approximately HK$7,319,000). The aggregate claim amount was fully settled and the relevant amounts had been accounted for in the Company's consolidated financial statements for the year ended 31 December 2020.

(d) Reference is made to the Compensation Rulings granted by the Property Bureau to GZ Zheng Da in 2013 pertaining to two compensation and resettlement cases for property demolition (房屋拆遷補償安置個案).

The Second Appeal remained not yet heard as to-date.

Taking into account the latest rulings granted by the Guangzhou Government and the Railway Court, the facts and legal grounds substantiated, and the opinion given by the PRC legal counsel and advisers, the Company remains optimistic in obtaining a favourable judgement to GZ Zheng Da.

OUTLOOK

The challenges arising from the COVID-19 pandemic in Mainland China and Hong Kong are unprecedented as most staff are restricted from free cross border travelling between Mainland China and Hong Kong. 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 with a view to catching up the revenue that has fallen behind budget.

China is one of the few nations worldwide that can manage to combat the COVID-19 outbreak to a negligible level as well resume nationwide economic activities to normal. The Chinese Central Government of China will strive to establish the new development spectrum with mega domestic economy loop as backbone and inter-propelled by the twin domestic and international economy loops (形成以國內大循環為主體，國內國際雙循環相互促進的新發展格局). With this backbone, the Chinese Central Government recently forecasted that the annual GDP growth rate will maintain at 6 per cent. this year. The Directors believe that this may help to boost both the productivity of private sector (民企) and domestic consumer market (內需市場), which in turn will serve to benefit the Group's business as a whole.

Notwithstanding the COVID-19 vaccine programme worldwide has been launched in January 2021, it is premature at this stage to assess if the vaccination is effective to control the pandemic globally. Unless most people worldwide get vaccination and the COVID-19 infected cases drop to a negligible level globally, it is believed that China will retain closed door policy for foreigners and Hong Kong citizens. The Directors remain cautiously optimistic that the public health concern will be relieved to a material extent in both Mainland China and Hong Kong late this year.

In Hong Kong, the Directors believe that the newly enacted Hong Kong National Security Law (港區國家安全法) last year and the intended perfection of the local electoral system (完善本地選舉制度) this year will safeguard the "One Country Two Systems" in the longer term (保一國兩制行穩致遠). The Directors love China and Hong Kong (愛國愛港) and support "The Patriots to Administrate Hong Kong" policy (支持愛國者治港方針) as well as the Hong Kong Administration to govern in accordance with the Basic Law (支持香港特區政府依法施政).

With strong assets backing and extremely low gearing level, the Directors will lever these advantages to finance the Group's re-development project in Guangzhou as well as explore new business opportunities in 2021 and 2022. The Directors will also strengthen its management expertise and redeploy the Group's resources for meeting these new challenges.

Looking ahead, 2021 remains a tough year but the Directors are optimistic about the economic bounce back in Mainland China and Hong Kong in the second half year.

CODE ON CORPORATE GOVERNANCE PRACTICE

In the opinion of the Directors, the Company complied with the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year, except for the following deviation:

Code Provision A.4.2

The second part of Code A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Pursuant to the bye-laws of the Company, the Managing Director of the Company was not subject to retirement by rotation. However, the Managing Director of the Company voluntarily retired by rotation every three years and offered himself for re-election at the Company's general meetings in the past years. The Directors considered that this practice was in line with the spirit of the relevant practice of the Code.

Code Provision A.6.7

Code A.6.7, requires directors to attend the shareholders' meetings if practicable. Ho Kam Hung, an executive Director, and Young Kwok Sui, a non-executive Director, were absent at the Company's annual general meeting held on 22 June 2020 due to cross-border travel restrictions for COVID-19 quarantine control purpose.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company had adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by its directors. Having made specific enquiry to the Directors, the Company confirmed that the Directors had complied with required standard set out in the Model Code throughout the accounting period covered by the annual report.

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

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

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary results announcement have been agreed by the Company's auditor, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by the Company's auditor on the preliminary results announcement.

AUDIT COMMITTEE

The Annual Results had been reviewed by the Audit Committee of the Company.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The annual report of the Group for the year ended 31 December 2020 containing all information required by Appendix 16 of the Listing Rules will be sent to the shareholders of the Company as well as released on the web site of the Stock Exchange as soon as practicable.

By Order of the Board
Ho Kam Hung
Executive Director

Hong Kong, 30 March 2021

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.