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 2021

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 2021 (the "Annual Results"), together with the comparative figures and the relevant explanatory notes, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

	Notes	**2021** *HK$'000*	2020 *HK$'000*
REVENUE	2	**57,670**	24,423
Cost of sales		**(5,628)**	–
Gross profit		**52,042**	24,423
Other income and gains		**786**	643
Changes in fair value of investment properties		**33,638**	5,936
Administrative expenses		**(25,693)**	(25,743)
Finance costs	3	**(1,664)**	(5,699)
PROFIT/(LOSS) BEFORE TAX	4	**59,109**	(440)
Income tax expense	5	**(28,128)**	(4,498)
PROFIT/(LOSS) FOR THE YEAR		**30,981**	(4,938)

	Notes	**2021**	2020
		HK$'000	*HK$'000*
Attributable to:			
Ordinary equity holders of the Company		**6,811**	(6,576)
Non-controlling interests		**24,170**	1,638
		30,981	(4,938)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
– Basic		**HK$0.01**	HK$(0.01)
– Diluted		**HK$0.01**	HK$(0.01)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2021

	2021	2020
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE YEAR	**30,981**	(4,938)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to the income statement in subsequent periods:		
Exchange differences on translation of foreign operations	**80,203**	186,160
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**111,184**	181,222
Attributable to:		
Ordinary equity holders of the Company	**31,202**	49,823
Non-controlling interests	**79,982**	131,399
	111,184	181,222

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	**2021** **_HK$'000_**	2020 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**4,013**	4,182
Right-of-use asset		**1,419**	3,312
Investment properties		**4,561,214**	4,415,971
Total non-current assets		**4,566,646**	4,423,465
CURRENT ASSETS			
Properties held for sale		**32,262**	37,003
Trade receivables	8	**21,611**	4,154
Prepayments, deposits and other receivables		**13,368**	13,136
Cash and bank balances		**93,204**	86,407
Total current assets		**160,445**	140,700
CURRENT LIABILITIES			
Trade payables	9	**(2,121)**	(2,090)
Other payables and accruals		**(70,101)**	(64,434)
Tax payable		**(79,521)**	(60,656)
Lease liability		**(1,303)**	(1,876)
Total current liabilities		**(153,046)**	(129,056)
NET CURRENT ASSETS		**7,399**	11,644
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,574,045**	4,435,109
NON-CURRENT LIABILITIES			
Loan from a director		**(78,056)**	(76,136)
Due to a director		**(149,036)**	(157,891)
Long term other payables		**(140,763)**	(137,969)
Deferred tax liabilities		**(982,814)**	(949,617)
Lease liability		**–**	(1,304)
Total non-current liabilities		**(1,350,669)**	(1,322,917)
Net assets		**3,223,376**	3,112,192
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**17,840**	17,840
Reserves		**919,330**	888,128
		937,170	905,968
Non-controlling interests		**2,286,206**	2,206,224
Total equity		**3,223,376**	3,112,192

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 has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)*

The nature and the impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The amendments did not have any impact on the financial position and performance of the Group.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. The Group has not received COVID-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

2. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue

An analysis of revenue is as follows:

	2021	2020
	HK$'000	*HK$'000*
Revenue from contracts with customers		
Sale of properties	**27,461**	–
Revenue from other sources		
Income from letting of investment properties	**30,209**	24,423
	57,670	24,423

Operating segment information

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 and development segment, which invests in properties for generating potential income from letting and sells properties located in Mainland China; 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 and a loan from a director as these liabilities are managed on a group basis.

Certain amounts in the segment information for the year ended 31 December 2020 have been represented to conform with current year presentation.

	Property investment and development		Corporate and others		Total	
	2021	2020	**2021**	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Sales to external customers	**57,670**	24,423	**–**	–	**57,670**	24,423
Segment results	**73,479**	18,478	**(13,492)**	(13,862)	**59,987**	4,616
Other income and gains					**786**	643
Finance costs					**(1,664)**	(5,699)
Profit/(loss) before tax					**59,109**	(440)
Income tax expense					**(28,128)**	(4,498)
Profit/(loss) for the year					**30,981**	(4,938)
Segment assets	**4,631,859**	4,473,834	**2,028**	3,924	**4,633,887**	4,477,758
Unallocated assets					**93,204**	86,407
Total assets					**4,727,091**	4,564,165
Segment liabilities	**356,504**	343,937	**6,820**	21,627	**363,324**	365,564
Unallocated liabilities					**1,140,391**	1,086,409
Total liabilities					**1,503,715**	1,451,973
Other segment information						
Depreciation of property, plant and equipment	**273**	252	**–**	–	**273**	252
Depreciation of right-of-use asset	**–**	–	**1,893**	2,000	**1,893**	2,000
Changes in fair value of investment properties	**(33,638)**	(5,936)	**–**	–	**(33,638)**	(5,936)

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 two (2020: one) customers which accounted for revenue exceeding 10% of Group's total revenues. Revenue from Customer A and Customer B accounted for HK$30,209,000 (2020: HK$24,423,000) and HK$27,461,000 (2020: Nil), respectively, during the year ended 31 December 2021.

3. FINANCE COSTS

	2021	2020
	HK$'000	*HK$'000*
Interest on:		
Loan from a director	**1,548**	5,604
Lease liability	**116**	95
	1,664	5,699

4. PROFIT/(LOSS) BEFORE TAX

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

	2021	2020
	HK$'000	*HK$'000*
Cost of properties sold	**5,628**	–
Depreciation of property, plant and equipment	**273**	252
Depreciation of right-of-use asset	**1,893**	2,000
Bank interest income	**(556)**	(439)
Changes in fair value of investment properties	**(33,638)**	(5,936)

5. INCOME TAX EXPENSE

	2021	2020
	HK$'000	*HK$'000*
Current – Mainland China		
Corporate income tax		
Charge for the year	**8,188**	2,839
Land appreciation tax ("LAT")		
Charge for the year	**10,809**	–
Deferred	**9,131**	1,659
Total tax charge for the year	**28,128**	4,498

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 (2020: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the regions in which the Group operates. The subsidiaries established in Mainland China are subject to income taxes at a tax rate of 25% (2020: 25%).

The LAT for the Group's subsidiary in Mainland China is levied at 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditures including cost of land and all property expenditures.

6. FINAL DIVIDEND

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

7. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$6,811,000 (2020: loss of HK$6,576,000), and the number of ordinary shares of 713,616,520 (2020: 679,091,930) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2021 and 2020.

8. TRADE RECEIVABLES

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

	2021		2020	
	HK$'000	***Percentage***	*HK$'000*	*Percentage*
Within 6 months	**15,945**	**74**	4,154	100
More than 6 months but within 1 year	**5,666**	**26**	–	–
	21,611	**100**	4,154	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:

	2021		2020	
	HK$'000	***Percentage***	*HK$'000*	*Percentage*
More than 1 year	**2,121**	**100**	2,090	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.

FINANCIAL REVIEW

Zhong Hua International Holdings Limited recorded a revenue of HK$57,670,000 (2020: HK$24,423,000) for the year ended 31 December 2021. Net profit attributable to ordinary equity holders of the Company for the year was HK$6,811,000 (2020: loss of HK$6,576,000). The increase of the Group's turnover during the year was attributable to the sales of properties held for sale of HK$27,461,000 in Guangzhou, Mainland China during the year.

Adjusted EBITDA

The Adjusted EBITDA of the Group for the year ended 31 December 2021 was profit of HK$29,301,000 (2020: HK$1,575,000). Adjusted EBITDA refers to the earnings before interest, tax and depreciation and does not take into account the effect of changes of fair value of investment properties.

Net Profit

The profit of the Group before and after tax for the year ended 31 December 2021 were HK$59,109,000 (2020: loss of HK$440,000) and HK$30,981,000 (2020: loss of HK$4,938,000), respectively. The increase of the Group's profit before tax during the year was attributable to (i) increase in Group's turnover during the year attributable to sales of properties held for sales of HK$27,461,000; (ii) a fair value gain of the Group's investment properties of HK$33,638,000 for the year ended 31 December 2021 as compared with a fair value gain of the Group's investment properties of HK$5,936,000 for previous year; and (iii) a decrease of the Group's finance expenses by HK$4,035,000 for the current year as compared with previous year.

Liquidity and Financial Resources

During the year, 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 year were HK$22,442,000 (2020: HK$18,776,000).

As at 31 December 2021, the Group had cash and bank balances of HK$93,204,000 (2020: HK$86,407,000).

As at 31 December 2021, the Group had outstanding borrowings of HK$79,359,000 (2020: HK$79,316,000) comprising lease liability of HK$1,303,000 (2020: HK$3,180,000) and a loan from a director in an amount of HK$78,056,000 (2020: HK$76,136,000). According to their respective terms, the lease liability of HK$1,303,000 (2020: HK$1,876,000) and Nil (2020: HK$1,304,000) are payable within one year and in the second year, respectively, and 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 2021 (2020: 0.02), calculated based on the Group's lease liability and loan from a director in an aggregate amount of HK$79,359,000 (2020: HK$79,316,000) over total assets of HK$4,727,091,000 (2020: HK$4,564,165,000). The Group maintained a relatively low gearing ratio in the past years. The Group's financial resources are able to meet its capital expenditure and working capital requirements for the coming twelve months from the date of this report.

FUND RAISING ACTIVITIES

On 15 April 2020, it was announced (the "New Issue Announcement") that 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 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 31 December 2021 are as follows:

Intended use of the net proceeds as stated in the New Issue Announcement			**Proceeds utilised as at 31 December 2021**	**Proceeds unutilised as at 31 December 2021**	
Category	**Net amount** *(HK$ in million)*	**Percentage**	**Net amount** *(HK$ in million)*	**Remaining amount** *(HK$ in million)*	**Expected schedule of use**
Redevelopment costs of redevelopment project in Guangzhou, Mainland China	12.0	74.5%	–	12.0	On or before 30 June 2022
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 31 December 2021.

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 one 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 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.

Amid the COVID-19 pandemic remained under control in Chongqing at most of the times in 2021, the business operation of Guang Yu Square resumed usual and normal during the year except for temporary shutdown when minor outbreaks of COVID-19 driven by Delta variant surged occasionally from time to time. To relieve the impact of temporary shutdown, the operator increased marketing momentum by organising crazy sale and lucky draw events for its tenants and customers. Rental income hence was not materially affected during the year as leases for 2021 were committed in late December 2020.

The Redevelopment Project in Guangzhou

The Group's property interest in Guangzhou is situated at Yuexiu District, Guangzhou (廣州市越秀區). The 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 Group's re-development plan.

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 purposes.

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 was demolished and the 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.

During the year, Guangzhou Zheng Da Development Company Limited (the "GZ Zheng Da"), the project company of the re-development site, was under negotiation with independent third parties about the possible business co-operation for the re-development project to the effect that the new partner, if co-operation proceeded, would provide capital and technical support for re-development. The business negotiation was adjourned in late 2021 due to shadow over the property market in Guangzhou (where headquarter of China Evergrande Group situated) was unclear. Nevertheless, GZ Zheng Da's re-development plan remained on.

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 2024 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$2,074 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 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 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 consolidated 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 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 GZ Zheng Da for demolition of the development site in Yuexiu District but remained unoccupied as at 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 under normal market sentiments.

During the second half of the year under review, certain units of properties held for sale were sold at approximately RMB22,700,000 (equivalent to approximately HK$27,461,000).

MATERIAL ACQUISITION UPDATE

The Group was engaged in a material acquisition, details of which are disclosed in the sections headed "Material Acquisition Update" and "Material Acquisition" in the Company's annual report for the year ended 31 December 2020 (the "Annual Report 2020"). Below is the latest development of the Acquisition (as defined in the aforesaid section) since 30 March 2021, the date of the Annual Report 2020.

In June 2021, 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 not later than the revised long stop date which was further deferred to 30 June 2022. 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 2022, no party shall be liable to each other. If this happens, the Group will no longer have 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 in the consolidated financial statements of the Company for the year ending 31 December 2022. Further announcement will be made once a concrete decision is made by the Group.

DISMISSAL ORDER APPEAL 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 "Purported 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 was neither a shareholder nor creditor of GZ Zheng Da, was turned down (駁回強制清算申請裁定) (the "Dismissal Order (駁回裁定)") on the grounds that "the two equity 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 Dismissal Order, the Guangzhou Court ascertained that GZ Zheng Da remained "in operation (在業)" and that Zheng Da Development Company Limited ("HK Zheng Da"), another indirect subsidiary of the Group, had 100% equity interest in GZ Zheng Da.

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

The Company perceived that the Dismissal Order cast out the legal uncertainties of GZ Zheng Da which had hampered its operation for about a decade and would expedite the redevelopment plan of GZ Zheng Da.

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

Based on the grounds stated in the Dismissal Order and after taking competent PRC legal advice, the Company remained optimistic in obtaining a favourable judgement in the Dismissed Order Appeal.

OUTLOOK

The challenges arising from the COVID-19 pandemic in Mainland China and Hong Kong are unprecedented as most people are restricted from free cross border travelling between Mainland China and Hong Kong as well as travel 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 worldwide that can combat the COVID-19 pandemic to a negligible level so far and hence the latest surge of COVID-19 virus driven by the hyper-contagious Omicron variant will be a new challenge to the health authority in China in 2022. It is premature at this stage to assess if the nationwide vaccination program is effective to combat this new potential wave of pandemic in China, and hence it is difficult to predict the economic performance of China for 2022.

The Chinese Central Government is expected to make an all-out effort to achieve its economic growth target of "around 5.5 percent" for 2022 but its economy will contend with a raft of hurdles and potential impediments to that goal. Disturbances stemming from a protracted Russia-Ukraine war, lingering tensions with Washington Administration and its allies, the US Federal Reserve's expected interest rate hike and surge of global oil, mineral and food commodities prices are factors that will drag the economic growth of China this year.

The financial crisis of most leading property developers in China emerged in late 2021 due to breach of loan or debenture repayment covenants blew up the property market boom in China. It appears that the Chinese Central Government released relaxing guidelines for residential property mortgages in February but construction loans remained under tight scrutinization procedures. It is expected that the property development market in China will not prosper until and when the capital supply in this sector is refueled and it will take time for market recovery and confidence regain by investors and end-users. In the medium term, the property development market in Mainland China will be on fast track again once consolidation is achieved under the supervision of the Chinese Central Government.

The launch of Basic Law will mark its 25th anniversary in Hong Kong in 2022. Following the legislation of the Improving Electoral System (完善選舉制度) in May 2021, the Directors deeply believe that the "One Country Two Systems will ever last in the longer term" (確保一國兩制行穩致遠). The Directors love China and Hong Kong (愛國愛港) and full support "The Patriots to Administrate Hong Kong" policy (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).

The Chinese Communist Party, the ruling party of China, will march 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 but the Directors are optimistic about the economic bounce back in Mainland China and Hong Kong in the third quarter of the year.

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 since 2019.

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 11 June 2021 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 2021 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 and consequently no opinion or assurance conclusion 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 2021 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, 29 March 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.