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ZHONGZHENG INTERNATIONAL COMPANY LIMITED

中證國際有限公司

(formerly known as eForce Holdings Limited 意科控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock code: 943)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

UNAUDITED INTERIM RESULTS

The board of directors (the “Board”) of Zhongzheng International Company Limited (the “Company”) announces that the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2021 together with the unaudited comparative figures for the corresponding period in 2020 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2021

| | | Six months ended 30 June | |
|---|--------------|---------------------------------|--------------------|
| | | 2021 | 2020 |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Unaudited) |
| Revenue | | 44,153 | 72,726 |
| Interest revenue | | 2,418 | 2,489 |
| Total revenue | 4 | 46,571 | 75,215 |
| Cost of sales | | (39,768) | (52,484) |
| Gross profit | | 6,803 | 22,731 |
| Other income and other gains and losses | | 1,360 | 4,177 |
| Selling and distribution expenses | | (12,107) | (1,346) |
| Administrative expenses | | (77,990) | (50,984) |

| | | Six months ended 30 June | |
|---|--------------|---------------------------------|--------------------|
| | | 2021 | 2020 |
| | | HK\$'000 | HK\$'000 |
| | <i>Notes</i> | (Unaudited) | (Unaudited) |
| Loss from operations | | (81,934) | (25,422) |
| Net loss on fair value changes on investments | | – | (351) |
| Gain on bargain purchase | | – | 42,765 |
| Loss on disposal of a subsidiary | | – | (170) |
| Share of results of associates | | (28,304) | (24,919) |
| Finance costs | 5 | (16,844) | (10,282) |
| Loss before tax | | (127,082) | (18,379) |
| Income tax expense | 6 | (3) | – |
| Loss for the period | 7 | (127,085) | (18,379) |
| Loss for the period attributable to: | | | |
| Owners of the Company | | (116,308) | (13,993) |
| Non-controlling interests | | (10,777) | (4,386) |
| | | (127,085) | (18,379) |
| Loss for the period | | (127,085) | (18,379) |
| Other comprehensive loss: | | | |
| <i>Items that may be reclassified to profit or loss:</i> | | | |
| Exchange differences on translating foreign operations | | (22,774) | (3,533) |
| Other comprehensive loss for the period, net of tax | | (22,774) | (3,533) |
| Total comprehensive loss for the period | | (149,859) | (21,912) |
| Total comprehensive loss for the period attributable to: | | | |
| Owners of the Company | | (139,082) | (17,526) |
| Non-controlling interests | | (10,777) | (4,386) |
| | | (149,859) | (21,912) |
| Loss per share | 9 | | |
| Basic (cents per share) | | (1.08) | (0.13) |
| Diluted (cents per share) | | N/A | N/A |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

| | | At 30 June 2021 HK\$'000 (Unaudited) | At 31 December 2020 HK\$'000 (Audited) |
|--|-------|---|---|
| | Notes | | |
| Non-current assets | | | |
| Exploration and evaluation assets | | 107,970 | 107,970 |
| Property, plant and equipment | 10 | 67,572 | 68,854 |
| Right-of-use assets | | 21,082 | 26,616 |
| Interests in associates | 11 | 1,163,921 | 1,200,663 |
| | | <u>1,360,545</u> | <u>1,404,103</u> |
| Current assets | | | |
| Inventories | | 25,735 | 19,073 |
| Properties under development for sale | | 1,778,791 | 1,559,362 |
| Trade and other receivables | 12 | 284,245 | 257,411 |
| Loans and interests receivables | 13 | 56,664 | 89,674 |
| Amount due from associates | | 242,967 | 161,941 |
| Current tax assets | | 938 | 938 |
| Bank and cash balances | | 418,650 | 177,095 |
| | | <u>2,807,990</u> | <u>2,265,494</u> |
| Current liabilities | | | |
| Trade and other payables | 14 | (850,069) | (514,010) |
| Promissory note | | (240,336) | (237,663) |
| Lease liabilities | | (13,530) | (10,763) |
| Borrowings | 15 | (688,913) | (691,097) |
| Shareholders loans | 16 | (285,942) | (343,376) |
| Current tax liabilities | | (6,040) | (6,017) |
| | | <u>(2,084,830)</u> | <u>(1,802,926)</u> |
| Net current assets | | <u>723,160</u> | <u>462,568</u> |
| Total assets less current liabilities | | <u><u>2,083,705</u></u> | <u><u>1,866,671</u></u> |

| | | At 30 June 2021 HK\$'000 (Unaudited) | At 31 December 2020 HK\$'000 (Audited) |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| Non-current liabilities | | | |
| Lease liabilities | | (8,556) | (16,452) |
| Borrowings | 15 | (740,233) | (309,157) |
| Shareholders loans | 16 | – | (38,503) |
| Deferred tax liabilities | | (60,375) | (77,666) |
| | | <u>(809,164)</u> | <u>(441,778)</u> |
| NET ASSETS | | <u>1,274,541</u> | <u>1,424,893</u> |
| Capital and reserves | | | |
| Share capital | 17 | 429 | 429 |
| Reserves | | <u>1,244,482</u> | <u>1,383,564</u> |
| Equity attributable to owners of the Company | | 1,244,911 | 1,383,993 |
| Non-controlling interests | | <u>29,630</u> | <u>40,900</u> |
| TOTAL EQUITY | | <u>1,274,541</u> | <u>1,424,893</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. GENERAL INFORMATION

Zhongzheng International Company Limited was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is Suite 3008, Man Yee Building, 68 Des Voeux Road Central, Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The principal activities of the Company and its subsidiaries (collectively "the Group") for the period ended 30 June 2021 are manufacturing and trading of healthcare and household products, money lending business, coal mining business, property development and primary land development.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information (the "Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Interim Financial Statements do not include all the information and disclosures required in a full set of financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020 ("2020 Annual Report").

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS'

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current period and prior years.

4. REVENUE AND SEGMENT INFORMATION

Information about reportable segment profit or loss, assets and liabilities:

| | Property development <i>HK\$'000</i> | Primary land development <i>HK\$'000</i> | Money lending business <i>HK\$'000</i> | Coal mining business <i>HK\$'000</i> | Healthcare and household business <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|--|--|---|--|--|--------------------------|
| Period ended 30 June 2021: (Unaudited) | | | | | | |
| Revenue | - | - | 2,418 | - | 44,153 | 46,571 |
| Segment (loss)/profit | (55,305) | (10,189) | 2,508 | (426) | (15,891) | (79,303) |
| As at 30 June 2021: (Unaudited) | | | | | | |
| Segment assets | 2,313,363 | 829,655 | 56,720 | 107,006 | 126,072 | 3,432,816 |
| Segment liabilities | 2,192,760 | 7,423 | - | - | 102,680 | 2,302,863 |
| Period ended 30 June 2020: (Unaudited) | | | | | | |
| Revenue | - | - | 2,489 | - | 72,726 | 75,215 |
| Segment (loss)/profit | (12,451) | (2,839) | 2,439 | (1,420) | 2,023 | (12,248) |
| As at 31 December 2020: (Audited) | | | | | | |
| Segment assets | 1,768,683 | 830,600 | 57,803 | 107,068 | 137,257 | 2,901,411 |
| Segment liabilities | 1,416,359 | 307,137 | 81 | - | 97,474 | 1,821,051 |

Reconciliations of reportable segment revenue, profit and loss, assets and liabilities:

| | Six months ended 30 June | |
|--|---------------------------------|------------------------|
| | 2021 | 2020 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Profit or loss: | | |
| Total loss of reportable segments | (79,303) | (12,248) |
| Net loss on fair value changes on investments at | | |
| fair value through profit or loss | - | (351) |
| Gain on bargain purchase | - | 42,765 |
| Share of results of associates | (28,304) | (24,919) |
| Corporate and unallocated loss | (19,475) | (23,626) |
| Consolidated loss before tax for the period | (127,082) | (18,379) |

An analysis of the Group's revenue is as follows:

| | Six months ended 30 June | |
|---|---------------------------------|--------------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Healthcare and household business | 44,153 | 72,726 |
| Revenue from contracts with customers | 44,153 | 72,726 |
| Interest income from money lending business | 2,418 | 2,489 |
| | 46,571 | 75,215 |

Disaggregation of revenue from contracts with customers

| Segment | Six months ended 30 June | |
|--|--|--|
| | 2021 | 2020 |
| | Healthcare and household business | Healthcare and household business |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| United States of America | 31,619 | 52,692 |
| The People's Republic of China (the "PRC") | 3,262 | 6,926 |
| Germany | 5,631 | 7,063 |
| France | 282 | 345 |
| United Kingdom | 656 | 1,492 |
| Hong Kong and others | 2,703 | 4,208 |
| | 44,153 | 72,726 |

All revenue from contracts with customers are recognised at a point in time.

5. FINANCE COSTS

| | Six months ended 30 June | |
|---|--------------------------|----------------------|
| | 2021 | 2020 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Interest on other loans | 8,741 | 27,924 |
| Lease interests | 1,054 | 205 |
| Interest on shareholders loans | 6,475 | 8,854 |
| Interest on bank loans and overdraft | 27,996 | 1,223 |
| | <u>44,266</u> | <u>38,206</u> |
| Less: interest capitalised in properties under development for sale | <u>(27,422)</u> | <u>(27,924)</u> |
| | <u><u>16,844</u></u> | <u><u>10,282</u></u> |

6. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2021 | 2020 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Current tax – PRC Enterprise Income Tax | | |
| – Provision for the period | <u>3</u> | <u>–</u> |

No provision for Hong Kong Profits Tax has been made for the period as the Group did not generate any assessable profits arising in Hong Kong (six months ended 2020: Nil).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

7. LOSS FOR THE PERIOD

The Group's loss for the period is stated after (charging)/crediting the following:

| | Six months ended 30 June | |
|---|---------------------------------|--------------------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Net loss on fair value changes on investments | | |
| at fair value through profit or loss | – | (351) |
| Gain on bargain purchase | – | 42,765 |
| Loss on disposal of a subsidiary | – | (170) |
| Loss on disposal of property, plant and equipment | (12) | – |
| Directors' emoluments | (3,876) | (4,931) |
| | <u><u> </u></u> | <u><u> </u></u> |

8. INTERIM DIVIDEND

The board does not recommend any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

9. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company of approximately HK\$116,308,000 (six months ended 30 June 2020: loss of approximately HK\$13,993,000) and the weighted average number of ordinary shares of 10,721,666,832 (six months ended 30 June 2020: 10,721,666,832) ordinary shares in issue during the period.

Diluted loss per share

No diluted loss per share is presented as the Company did not have any outstanding dilutive potential ordinary shares during the six months ended 2021 and 2020.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, property, plant and equipment of approximately HK\$389,000 was acquired by the Group (six months ended 30 June 2020: approximately HK\$536,000).

11. INTERESTS IN ASSOCIATES

| | 30 June 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|-----------------------------------|--|--|
| Share of net assets plus goodwill | 1,163,921 | 1,200,663 |

The details of the associates are summarised as follows:

| Name | Principal place of business/countries of incorporation | % of ownership interest | Principal activity | Carrying amount | |
|---|--|----------------------------|--------------------------|---|---|
| | | | | 30 June 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
| Chengde CITIC Securities Jinyu Investment Development Co., Ltd. | The PRC | 42.5% | Primary land development | 553,720 | 573,487 |
| Pacific Memory Sdn Bhd | Malaysia | 35.0% | Property development | 610,201 | 627,176 |
| | | | | 1,163,921 | 1,200,663 |

12. TRADE AND OTHER RECEIVABLES

The trade and other receivable included trade receivables of approximately HK29,546,000 as at 30 June 2021. The aging analysis of trade receivables, based on invoiced date, and net of allowance, is as follows:

| | 30 June 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|----------------|--|--|
| 0 to 30 days | 13,538 | 9,046 |
| 31 to 90 days | 9,074 | 15,042 |
| 91 to 180 days | 6,910 | 14,685 |
| Over 180 days | 24 | 116 |
| | 29,546 | 38,889 |

13. LOANS AND INTERESTS RECEIVABLES

The loans and interests receivables included loan receivables of approximately HK\$46,292,000 as at 30 June 2021. The aging analysis of loans receivables prepared based on loan commencement or renewal date set out in the relevant contracts is as follows:

| | 30 June 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|----------------|--|--|
| 7 to 12 months | 15,500 | 29,800 |
| Over 12 months | 30,792 | 39,825 |
| | 46,292 | 69,625 |

14. TRADE AND OTHER PAYABLES

The trade and other payables included trade payables and bills payables of approximately HK\$24,083,000 as at 30 June 2021. The aging analysis of the trade payables and bills payables, based on the date of receipt of goods, is as follows:

| | 30 June 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|----------------|--|--|
| 0 to 30 days | 7,498 | 5,455 |
| 31 to 90 days | 11,359 | 7,446 |
| 91 to 180 days | 4,470 | 7,454 |
| Over 180 days | 756 | 1,164 |
| | 24,083 | 21,519 |

15. BORROWINGS

| | 30 June 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|-------------------------------------|--|--|
| Secured bank loans | 751,383 | 309,157 |
| Unsecured other loans | 677,763 | 691,097 |
| | 1,429,146 | 1,000,254 |
| Analysed for reporting purposes as: | | |
| – Non-current liabilities | 740,233 | 309,157 |
| – Current liabilities | 688,913 | 691,097 |
| | 1,429,146 | 1,000,254 |

The secured bank loans represent loans which are secured by the corporate guarantee provided by third parties and personal guarantee of the related parties of the subsidiary of the Company. The loans are arranged at floating rate ranging from 5.66% to 6.09% and fixed interest rate ranging from 8.00% to 9.57% per annum.

The unsecured loans represent loans which stated at a range from 2.2% to 12% per annum interest rate.

16. SHAREHOLDERS LOANS

| | 30 June 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|-------------------------------------|--|--|
| Loans from Shareholders | 285,942 | 381,879 |
| Analysed for reporting purposes as: | | |
| – Current liabilities | 285,942 | 343,376 |
| – Non-current liabilities | – | 38,503 |
| | 285,942 | 381,879 |

On 10 January 2019, the Group entered into a loan agreement of HK\$300 million with a shareholder. The loan is unsecured, interest bearing at 2.2% per annum and repayable within 2 years. The difference between the loan principal and its fair value at initial recognition was directly dealt with in equity as contribution from equity participant. The effective interest rate of this shareholder loan is 10.47%. As at 30 June 2021, approximately HK\$259 million of the loan was repaid.

On 5 August 2019, the Group entered into a loan agreement of HK\$20 million with another shareholder. The loan is unsecured, interest bearing at 2.2% per annum and repayable within 2 years. The difference between the loan principal and its fair value at initial recognition was directly dealt with in equity as contribution from equity participant. The effective interest rate of this shareholder loan is 10.47%.

On 11 November 2019, the Group entered into another loan agreement of HK\$230 million with this shareholder. The loan is unsecured, interest bearing at 5% per annum.

17. SHARE CAPITAL

| | Number of shares | Amount HK\$'000 |
|--|--------------------|--------------------|
| Authorised: | | |
| Ordinary shares of HK\$0.00004 each at 1 January 2020, 31 December 2020, 1 January 2021 and 30 June 2021 | 25,000,000,000,000 | 1,000,000 |
| | | |
| | Number of shares | Amount HK\$'000 |
| Issued and fully paid: | | |
| Ordinary shares of HK\$0.00004 each: | | |
| At 1 January 2020 (Audited), 31 December 2020 (Audited), 1 January 2021 (Audited) and 30 June 2021 (Unaudited) | 10,721,666,832 | 429 |

18. EVENT AFTER REPORTING PERIOD

On 17 May 2021, the Company has entered into a non-legally binding memorandum of understanding (the “MOU”) with Hong Kong Zhongzheng Huijin Limited (the “Huijin”) in respect of a possible disposal of a wholly-owned subsidiary Hong Kong Zhongzheng City Investment Limited.

On the 25 August 2021, the Company has entered into another non-legal binding supplemental MOU with the Huijin. In the supplemental MOU, it has stated that the consideration for the possible disposal will be satisfied by cash, the buy-back and cancellation of the consideration shares issued by the Company for the acquisition of Hong Kong Zhongzheng City Investment Limited in 2019; and the redemption and cancellation of the promissory note issued by the Company.

Based on the currently available information, in the preliminary view of the management of the Company, if the possible disposal is completed, there will be a loss on the possible disposal of approximately HK\$150,000,000. Details regarding to the possible disposal can be found in the Company’s announcements dated 25 May 2021 and 25 August 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Results for the period

Revenue of the Group for the six months ended 30 June 2021 amounted to approximately HK\$46,571,000, which represented a decrease of approximately HK\$28,644,000 or 38.1% as compared to approximately HK\$75,215,000 in the corresponding period in 2020.

The consolidated loss of the Group for the six months ended 30 June 2021 amounted to approximately HK\$127,085,000 as compared to the loss of approximately HK\$18,379,000 in the corresponding period in 2020.

The following is the review of the business of the Group for the six months ended 30 June 2021 and the outlook of the Group's business in the second half of 2021.

Manufacture and sale of healthcare and household products

Revenue of the healthcare and household business decreased to approximately HK\$44,153,000 for the six months ended 30 June 2021, representing a decrease of approximately HK\$28,573,000 or 39.3% as compared to approximately HK\$72,726,000 recorded during the corresponding period in 2020. The decrease was mainly caused by global shipping disruption causing the delay of shipments of approximately HK\$8,000,000 finished products from June to July. Sales is lagging behind economic recovery in major overseas markets since beginning of 2021, most customers began filling up inventory from the second quarter of 2021. It takes 2 months production lead time to turn order bookings into sales.

Gross profit margin for the segment decreased from 27.8% for the six months ended 30 June 2020 to 10.0% for the period under review, which was mainly due to the the delay in shipment as mentioned above and tight production schedule requested by customers during the period under review. Substantial increase in cost of raw materials also resulted in decrease in gross profit. Consistent with the decrease in revenue, gross profit decreased to approximately HK\$4,385,000 in the period under review (2020: HK\$20,242,000). Overall, the Group's healthcare and household business recorded a segmental loss of approximately HK\$15,891,000 for the six months ended 30 June 2021 as compared to a segmental profit of approximately HK\$2,023,000 in the corresponding period in 2020.

Money lending business

The segment revenue being interest income from the Group's money lending business for the six months ended 30 June 2021 was approximately HK\$2,418,000 (2020: HK\$2,489,000). Depending on the nature and terms and conditions of each loan that was made, interest rate ranged from 7% per annum to 24% per annum. Total loan receivables as at 30 June 2021 was approximately HK\$46,292,000 (31 December 2020: HK\$69,625,000) after reviewing the risk of default of individual borrowers and making an impairment allowance of HK\$3,166,000. (31 December 2020: HK\$3,166,000). In view of the recent market sentiment, the Group does not expect further growth in its money lending business in 2021.

Coal mining business

During the period under review, there was no mining production at the Group's coal mine project in Central Kalimantan Province in the Republic of Indonesia ("PT Bara Mine"), no revenue was recognised from the coal mining business for the six months ended 30 June 2021.

No capital expenditure was incurred on mining infrastructure as there was no development activity during the six months ended 30 June 2021. Operating expenses related to the Group's mining business charged to the statement of profit or loss and other comprehensive income were mainly administrative expenses amounted to approximately HK\$426,000 for the six months ended 30 June 2021 (2020: HK\$1,420,000). The significant increase in expenses during the period under review was caused by the incurrence of license and report fees for the renewal of exploration and exploitation rights. During the period under review, the rights have been renewed for 10 years up to December 2029.

The coal resource estimates as at 30 June 2021 were as follows:

| JORC Category | Coal Resource Estimate <i>(in thousand tonnes)</i> | | Change in % | Reason of change |
|---------------|---|------------------|-------------|------------------|
| | As at | As at | | |
| | 30 June 2021 | 31 December 2020 | | |
| Measured | 8,705 | 8,705 | Nil | N/A |
| Indicated | 11,537 | 11,537 | Nil | N/A |
| Inferred | 6,097 | 6,097 | Nil | N/A |
| | <u>26,339</u> | <u>26,339</u> | | |

As no exploration and mining activity had been carried out during the six months ended 30 June 2021, there was no material change to the PT Bara Mine since the end of 2020 and the coal resources estimates as at 30 June 2021 were the same as those recorded as at 31 December 2020. No review of the coal resources was carried out during the six months ended 30 June 2021.

The carrying amount of the exploration and evaluation assets is reviewed for impairment annually. The last valuation of PT Bara Mine was done at the beginning of 2021 by Graval Consulting Limited and an impairment loss of approximately HK\$34,030,000 was recognised for the year ended 31 December 2020 being the recoverable amount of the PT Bara Mine less than its carrying amount as at 31 December 2020.

Primary land development

The primary land development project is located at Luanping County, Chengde, Hebei Province, the PRC (the “Luanping Project”). Chengde CITIC Securities Urban and Rural Development Co., Ltd.* (承德中證城鄉開發有限公司) (“CITIC Development”) is the project company of the Luanping Project. The Company has 90% interest in CITIC Development through holding an associate called Chengde CITIC Securities Jinyu Investment Development Co., Ltd.* (承德中證金城投資開發有限公司).

As disclosed in the annual report of the Company for the year ended 31 December 2019, the operations of all property development projects for Luanping County, including the Luanping Project, were suspended by the local government due to ecological environmental issues. As such, during the period under review, only one land auction was carried out. The area of the land plot is 6.255 Mu and the price of land is approximately RMB5,200,000. Also, the government authority returned fund of approximately RMB31,500,000 to the project company for previous land auction.

As at 30 June 2021, the outstanding loans in respect of the Luanping Project that were due for repayment amounted to RMB625 million and loans in the principal amount of RMB125 million and RMB370 million will fall due by the end of 2021 and 2022, respectively. The delay in land auction for the Luanping Project has resulted in cash flow issue for the operation of the project. The cash flow of the Luanping Project was also hit by the deleverage of property development enterprises implemented by the state during the second half of 2020. In view of the above and the uncertainty in the PRC property market, the Company intends to dispose of the Luanping Project and details of the memorandum of understanding entered into by the Company regarding the disposal are to be discussed below.

With the delay in land auction for the Luanping Project during the first half of the year, the share of loss of associates for the Company amounted to HK\$28,304,000, representing an increase of approximately 13.6% from HK\$24,919,000 in the same period last year. The loss of associates is mainly comprised of the operating expenses and finance cost incurred for the Luanping Project.

Property development

The property development segment includes two property projects: the project in Nancheng District, Dongguan City, Guangdong Province (the “Dongguan Project”), and the project in Liuhe District, Nanjing City, Jiangsu Province (the “Nanjing Project”).

The name of the Dongguan Project is CITIC·Cloud Courtyard* (中證•雲庭), which is located at the Nancheng District, Dongguan City. It is the area with the most mature supporting facilities and scarce housing supply in Dongguan City. The project consists of two 25-storey buildings with both residential and commercial elements. According to the latest construction plan, the gross floor area for residential portion and commercial portion are 23,410 square meters and 4,897 square meters respectively. The two underground floors will be parking area.

For the Dongguan Project, during the period under review, the project progress can be summarized as follows:

- a total gross floor area of 16,557.75 square meters with amount of approximately RMB575,265,000 have been sold;
- The superstructure, masonry works, plastering of internal and external walls, 4 to 25th floor of paint, and doors and windows are installed;
- The tower roof, basement putty, and basement floor is completed; and
- The external frame of the tower has been completely demolished.

The name of the Nanjing Project is Spring Breeze* (“泉悅春風”), which is located at Naishan ecological scenic area, Long Pao New City, Jiangbei New Area, Nanjing. The project features a high-end hot spring hotel and low-density Chinese-style courtyard community. The total development area of the project is about 240,000 square meters. It includes development for three phases of low-density residential elements – villas and courtyard. There is also a Banyan Tree hotel development for the project since it is a tourist spot famous for its hot spring. The gross floor area of the whole project is about 340,000 square meters.

For the Nanjing Project, during the period under review, the project progress can be summarized as follows:

- Contracts have been signed for 7 units (gross floor area of 1,204.75 square meters with amount of approximately RMB25,269,000) but most of the buyers have only paid the initial payment;
- 31 units have been subscribed (gross floor area of 4,770.4 square meters with amount of approximately RMB102,000,000);

- Construction drawing revision and submission for review of second-phase residential units was completed on 31 May 2021;
- Superstructure of first-phase residential units has been completed by 75%; and
- initial deposit of 13 residential units were forfeited as the buyers failed to complete.

In August 2020, the People's Bank of China and the China Banking and Insurance Regulatory Commission announced that they intended to require domestic banks to limit the ratio between outstanding property loans and total RMB loans. The banks have since then become more stringent in granting mortgages, with the consequential effects that potential buyers have been discouraged from purchasing property; and some buyers have had difficulties in settling payment for the property units especially in face of the Covid-19 epidemic. Due to the tightening of home mortgage approval in the PRC, the cashflow of these projects were being adversely affected during the period under review and the proceeds from the sales of properties of these projects generated so far were not sufficient to settle the outstanding loans which have been overdue as at 30 June 2021.

In view of the tightening of home mortgages approval and the unsatisfactory sale performance of these projects, the Company intends to dispose of these projects.

On 17 May 2021, the Company has entered into a non-legally binding MOU with the Huijin in respect of a possible disposal of a wholly-owned subsidiary Hong Kong Zhongzheng City Investment Limited.

On the 25 August 2021, the Company has entered into another non-legal binding supplemental MOU with the Huijin. In the supplemental MOU, it has stated that the consideration for the possible disposal will be satisfied by cash, the buy-back and cancellation of the consideration shares issued by the Company for the acquisition of Hong Kong Zhongzheng City Investment Limited in 2019; and the redemption and cancellation of the promissory note issued by the Company.

Based on the currently available information, in the preliminary view of the management of the Company, if the possible disposal is completed, there will be a loss on the possible disposal of approximately HK\$150,000,000. Details regarding to the possible disposal can be found in the Company's announcements dated 25 May 2021 and 25 August 2021.

Update on the proposed commercial development at Port Dickson, Malaysia

The development plan of the first phase of proposed commercial development at Port Dickson, Malaysia has already been submitted to the relevant government agencies for approval and the part of the plan that related to the building of berths has already been approved. The local management are awaiting for other part of the development plan to be approved before deciding how to proceed with it. Based on the latest development plan, the first phase of the proposed development is estimated to be completed in around 2021 while the second phase of the proposed development should be completed in 2023. A hotel of approximately 300 guests rooms with 10% suites and approximately 4,000 square meters of meeting space is planned to be developed and managed by Hard Rock Hotel for a term of 20 years. The temporary building layout plan for the first phase includes open parking, sales gallery, hotel (as mentioned), show unit, retails, event space, glamping site and outdoor garden. On 11 August 2021, submission of earthwork was made to the Engineering Department of Port Dickson Municipal Council. Due to the Covid-19 epidemic, the development of the project has been seriously affected and no significant progress has been made during the period under review.

Others

The Group recorded a loss of approximately HK\$127,085,000 for the six months ended 30 June 2021 as compared to a loss of approximately HK\$18,379,000 in the corresponding period in 2020 which was mainly due to the combined effect of the following reasons:

- (a) The abovementioned reasons for the increase or decrease in profit or loss of different reportable segments;
- (b) During the six months ended 30 June 2020, the Group recognized a gain on bargain purchase of approximately HK\$42,765,000 in the acquisition of Shenzhen Qianhai CITIC Huateng Industrial Co., Ltd. The gain on bargain purchase was caused by the amount of consideration paid lower than the fair value of the net assets acquired as at the date of completion. The gain on the bargain purchase was a one-off non-cash adjustment which has no impact on the Group's operating cash flow. However, there was no such gain during current period; and
- (c) The increase in selling and distribution expenses was mainly caused by the sales commission of Dongguan Project amounted to approximately HK\$10,400,000 for current period (2020: Nil). The sales commission was incurred by the sale of residential units for Dongguan Project; and
- (d) The increase in administrative expenses was mainly caused by the loan arrangement and service fee for the finance of the Dongguan and Nanjing Project amounted to approximately HK\$23,949,000 (2020: Nil).

PROSPECT

Since sales showed a decrease in the first half of 2021, the Group is cautious about the outlook of the global consumer market in the second half of 2021 as escalating trade war between the USA and the PRC shows no signs of easing. Also, the impact of Covid-19 epidemic seems to continue in the foreseeable future. On the other hand, the Group will continue to improve productivity and operational efficiency to lower production costs.

The Group is still optimistic in the outlook of second half of 2021 and beyond, as new projects are progressing well. The Group has entered into commercial agreement with a leading global healthcare brand on an electric groomer project, after passing Supplier Sustainability Performance audit in August, and upon completion of final assessments in our technical capability and financial sustainability in September, project award will take place. The project involves approximately HK\$312,000,000 sales spanning over 3 years. 2 new projects from Perrigo for electric toothbrushes and UV sanitizer have been awarded to the Group in August. Production tooling has begun, targeting end of 2021 to early 2022 production and delivery, and total annual sales projection is approximately HK\$71,000,000. Sales of children electric toothbrushes have rebounded strongly from the second half 2021, P&G toothbrush is running full production capacity during June to August 2021, order bookings from Perrigo have reached pre-Covid period during months of May to July 2021. A new toothbrush programs at Walmart US are being finalized for the fourth quarter 2021 for distribution. The Group will continue to expand resources in the research and development capabilities in coping with increasing technical needs from our customers and to be able to stay on top of the competition. Adopting revolutionary product designs gear for automation in production optimizing greatest cost efficiency in output and quality.

LIQUIDITY AND FINANCIAL RESOURCES

Cash position

As at 30 June 2021, the Group had cash and bank deposits of approximately HK\$418,650,000 (31 December 2020: HK\$177,095,000) with a foreign currency deposits denominated in Renminbi amounted to approximately HK\$413,530,000 (31 December 2020: HK\$169,810,000).

Current ratio

As at 30 June 2021, the Group had net current assets of approximately HK\$723,160,000 (31 December 2020: HK\$462,568,000) and current ratio (being current assets over current liabilities) of 1.35 (31 December 2020: 1.26).

Debts and borrowings

As at 30 June 2021, the Group had total debts and borrowings of approximately HK\$1,715,088,000 (31 December 2020: HK\$1,382,133,000) which mainly comprised of shareholder loan, unsecured loan from financial institutes and secured bank loan.

Gearing ratio

The Group's gearing ratio being total debt over total equity is 134.6% (31 December 2020: 97.0%).

Exposure to fluctuation in exchange rates, interest rates and related hedges

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The management will monitor the Group's foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise and appropriate instrument be available.

The interest rates profile of the Group's borrowings is mainly at fixed rates. The Group has minimal exposure to interest rate risk, the Group's operating cash flows are substantially independent of changes in market interest rates. The Group does not hedge against interest rates risk as the management does not foresee the impact of any fluctuation in interest rates to be material to the Group.

Employees and remuneration policy

As at 30 June 2021, the Group had 22 employees (2020: 30) in Hong Kong, 683 employees (2020: 813) in the PRC and 1 employee (2020: 1) in Indonesia. Employees' remuneration are given and reviewed based on market norms, individual performance and experience. Awards and bonuses are considered based on the Group's business results and employees' individual merit.

Important Events After the End of the Financial Period

Save as disclosed above, there are no important events affecting the Group which have occurred after the end of the financial period for the six months ended 30 June 2021 and up to the date of this announcement.

Future plans for material investments or capital assets

Save as disclosed in the section headed "Prospects" in this announcement, there were no other future plans for material investments or acquisition of capital assets as at 30 June 2021.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The audit committee of the Company (the "Audit Committee") has reviewed and discussed with the management the unaudited interim financial statements for the six months ended 30 June 2021. The unaudited interim financial statements for the six months ended 30 June 2021 were approved and authorised for issue by the Board of Directors on 31 August 2021.

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the six months ended 30 June 2021.

CORPORATE GOVERNANCE CODE

The Company has complied with all requirements set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2021, with the exception for Provision A.4.1 which provides that non-executive Directors should be appointed for a specific term and subject to re-election. None of the independent non-executive Directors of the Company is appointed for a specific term but all are subject to retirement by rotation at the annual general meeting in accordance with the Bye-laws of the Company. As Directors' appointment will be reviewed when they are due for re-election, the Company is of the view that this meets the same objectives of the said code provision.

AUDIT COMMITTEE

As at the date of this announcement, the Audit Committee comprises Mr. Hau Chi Kit, Mr. Leung Chi Hung and Mr. Li Hon Kuen, all being the independent non-executive Directors. Mr. Li Hon Kuen is the Chairman of the Audit Committee. The Audit Committee has adopted terms of reference which are in line with the Code.

The primary function of the Audit Committee is to review and monitor the Group's financial reporting process and internal controls. It is also responsible for making recommendation to the Board for the appointment, reappointment or removal of the external auditor.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The results announcement of the Group for the six months ended 30 June 2020 is published on the websites of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) and the Company (<http://www.zhongzheng.com.hk>) respectively. The 2021 interim report of the Company will be dispatched to the shareholders and made available on the above websites in September 2021.

By order of the Board
Zhongzheng International Company Limited
Liu Liyang
Executive Director

Hong Kong, 31 August 2021

As at the date of this announcement, the Board comprises five executive Directors, namely Mr. Leung Chung Shan, Mr. Tam Lup Wai, Franky, Mr. Liu Liyang, Mr. Gao Yuxiang and Mr. Qiu Qing; one non-executive Director, namely Mr. Lim Kim Chai, J.P.; and three independent non-executive Directors, namely Mr. Hau Chi Kit, Mr. Leung Chi Hung and Mr. Li Hon Kuen.

* *For identification purpose only*