

# Zhongzheng International Company Limited

( Incorporated in Bermuda with Limited Liability )  
( Stock Code : 943 )

## **2021** *Interim Report*

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## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue		44,153	72,726
Interest revenue		2,418	2,489
<b>Total revenue</b>	4	<b>46,571</b>	75,215
Cost of sales		(39,768)	(52,484)
<b>Gross profit</b>		<b>6,803</b>	22,731
Other income		1,360	4,177
Selling and distribution expenses		(12,107)	(1,346)
Administrative expenses		(77,990)	(50,984)
<b>Loss from operations</b>		<b>(81,934)</b>	(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)
<b>Loss before tax</b>		<b>(127,082)</b>	(18,379)
Income tax expense	6	(3)	–
<b>Loss for the period</b>	7	<b>(127,085)</b>	(18,379)
<b>Loss for the period attributable to:</b>			
Owners of the Company		(116,308)	(13,993)
Non-controlling interests		(10,777)	(4,386)
		<b>(127,085)</b>	(18,379)
<b>Loss for the period</b>		<b>(127,085)</b>	(18,379)

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2021*

	Notes	Six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
<b>Other comprehensive loss:</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(22,774)	(3,533)
<b>Other comprehensive loss for the period, net of tax</b>		(22,774)	(3,533)
<b>Total comprehensive loss for the period</b>		<b>(149,859)</b>	<b>(21,912)</b>
<b>Total comprehensive loss for the period attributable to:</b>			
Owners of the Company		(139,082)	(17,526)
Non-controlling interests		(10,777)	(4,386)
		<b>(149,859)</b>	<b>(21,912)</b>
<b>Loss per share</b>	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	At 31 December 2020
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
<b>Non-current assets</b>		<b>44,153</b>	72,726
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>
<b>Current assets</b>			
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>
<b>Current liabilities</b>			
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>
<b>Net current assets</b>		<b>723,160</b>	462,568
<b>Total assets less current liabilities</b>		<b>2,083,705</b>	1,866,671

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION***At 30 June 2021*

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 June 2021*

	Attributable to owners of the Company										
	Share capital	Share premium	Contributed surplus	Foreign currency translation reserve	Warrant reserve	Other reserve	Property revaluation reserve	Accumulated losses	Total	Non-controlling interests	Total
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
At 1 January 2020 (Audited)	429	878,200	626,537	(63,475)	24,226	33,251	37,120	(148,557)	1,387,731	447	1,388,178
Acquisition of subsidiaries (Unaudited)	-	-	-	-	-	-	-	-	-	50,319	50,319
Total comprehensive loss for the period (Unaudited)	-	-	-	(3,533)	-	-	-	(13,993)	(17,526)	(4,386)	(21,912)
At 30 June 2020 (Unaudited)	<u>429</u>	<u>878,200</u>	<u>626,537</u>	<u>(67,008)</u>	<u>24,226</u>	<u>33,251</u>	<u>37,120</u>	<u>(162,550)</u>	<u>1,370,205</u>	<u>46,380</u>	<u>1,416,585</u>
At 1 January 2021 (Audited)	429	878,200	626,537	(16,509)	24,226	33,251	40,204	(202,345)	1,383,993	40,900	1,424,893
Return of capital to non-controlling shareholders (Unaudited)	-	-	-	-	-	-	-	-	-	(493)	(493)
Total comprehensive loss for the period (Unaudited)	-	-	-	(22,774)	-	-	-	(116,308)	(139,082)	(10,777)	(149,859)
At 30 June 2021 (Unaudited)	<u>429</u>	<u>878,200</u>	<u>626,537</u>	<u>(39,283)</u>	<u>24,226</u>	<u>33,251</u>	<u>40,204</u>	<u>(318,653)</u>	<u>1,244,911</u>	<u>29,630</u>	<u>1,274,541</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS***For the six months ended 30 June 2021*

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Net cash generated from/(used in) operating activities</b>	<b>65,784</b>	<b>(120,074)</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries	–	27,843
Purchase of property, plant and equipment	<b>(389)</b>	(536)
Proceeds from disposal of property, plant and equipment	<b>85</b>	–
Change in amounts due from associates	<b>(81,026)</b>	–
<b>Net cash (used in)/generated from investing activities</b>	<b>(81,330)</b>	<b>27,307</b>
<b>Cash flows from financing activities</b>		
New borrowings	<b>521,274</b>	345,640
Loan from an associate	–	232,721
Capital refunded to non-controlling interest	<b>(493)</b>	–
Repayment of borrowings	<b>(123,383)</b>	(293,502)
Repayment of shareholders loans	<b>(111,046)</b>	(16,000)
Repayment of lease liabilities	<b>(6,344)</b>	(3,738)
Interests paid	<b>(27,996)</b>	(415)
<b>Net cash generated from financing activities</b>	<b>252,012</b>	<b>264,706</b>
<b>Net increase in cash and cash equivalents</b>	<b>236,466</b>	<b>171,939</b>
Cash and cash equivalents at the beginning of the period	<b>177,095</b>	166,852
Effect of changes in foreign exchange rate	<b>5,089</b>	(1,711)
<b>Cash and cash equivalents at the end of the period</b>	<b>418,650</b>	<b>337,080</b>
<b>Analysis of cash and cash equivalents</b>		
Bank and cash balances	<b>418,650</b>	<b>337,080</b>

## 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2021***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>
<b>Period ended 30 June 2021:</b>						
<b>(Unaudited)</b>						
Revenue	–	–	2,418	–	44,153	46,571
Segment (loss)/profit	(55,305)	(10,189)	2,508	(426)	(15,891)	(79,303)
<b>As at 30 June 2021:</b>						
<b>(Unaudited)</b>						
Segment assets	2,313,363	829,655	56,720	107,006	126,072	3,432,816
Segment liabilities	<u>2,192,760</u>	<u>7,423</u>	<u>–</u>	<u>–</u>	<u>102,680</u>	<u>2,302,863</u>
<b>Period ended 30 June 2020:</b>						
<b>(Unaudited)</b>						
Revenue	–	–	2,489	–	72,726	75,215
Segment (loss)/profit	(12,451)	(2,839)	2,439	(1,420)	2,023	(12,248)
<b>As at 31 December 2020:</b>						
<b>(Audited)</b>						
Segment assets	1,768,683	830,600	57,803	107,068	137,257	2,901,411
Segment liabilities	<u>1,416,359</u>	<u>307,137</u>	<u>81</u>	<u>–</u>	<u>97,474</u>	<u>1,821,051</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2021***4. REVENUE AND SEGMENT INFORMATION (Continued)****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)
<b>Profit or loss:</b>		
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	<u>(127,082)</u>	<u>(18,379)</u>

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

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(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
	<u>46,571</u>	<u>75,215</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2021***4. REVENUE AND SEGMENT INFORMATION (Continued)****Disaggregation of revenue from contracts with customers**

Segment	Six months ended 30 June	
	2021 Healthcare and household business HK\$'000 (Unaudited)	2020 Healthcare and household business HK\$'000 (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
	<b>44,153</b>	<b>72,726</b>

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

**5. FINANCE COSTS**

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (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
	<b>44,266</b>	<b>38,206</b>
Less: interest capitalised in properties under development for sale	(27,422)	(27,924)
	<b>16,844</b>	<b>10,282</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2021***6. INCOME TAX EXPENSE**

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

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:

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
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	<b>(12)</b>	–
Directors' emoluments	<b>(3,876)</b>	<b>(4,931)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2021***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).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the six months ended 30 June 2021

**11. INTERESTS IN ASSOCIATES**

	<b>30 June 2021 HK\$'000 (Unaudited)</b>	31 December 2020 HK\$'000 (Audited)
Share of net assets plus goodwill	<b>1,163,921</b>	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
				<b>1,163,921</b>	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:

	<b>30 June 2021 HK\$'000 (Unaudited)</b>	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
	<b>29,546</b>	38,889

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2021***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:

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

**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:

	<b>30 June 2021 HK\$'000 (Unaudited)</b>	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
	<b>24,083</b>	<b>21,519</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2021***15. BORROWINGS**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2021***16. SHAREHOLDERS LOANS**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2021***17. SHARE CAPITAL**

	Number of shares	Amount <i>HK\$'000</i>
<b>Authorised:</b>		
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
	<u>Number of shares</u>	<u>Amount</u> <i>HK\$'000</i>
<b>Issued and fully paid:</b>		
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. CONTINGENT LIABILITIES**

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities (31 December 2020: Nil).

**19. RELATED PARTY TRANSACTIONS**

In addition to the transactions and balances disclosed elsewhere in these Interim Financial Statements, the Group had no other transactions and balances with its related parties during the period ended 30 June 2021.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2021***20. 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.

**21. APPROVAL OF FINANCIAL STATEMENTS**

The Interim Financial Statements were approved and authorised for issue by the Board of Directors on 31 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 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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		Change in %	Reason of change
	<i>(in thousand tonnes)</i>			
	As at 30 June 2021	As at 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
	<b>26,339</b>	<b>26,339</b>		

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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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\* (“泉悦春風”), 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 report.

#### Future plans for material investments or capital assets

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

## OTHER INFORMATION

### 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).

### DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2021, except for Mr. Leung Chung Shan, the chairman and executive Director of the Company, Mr. Lim Kim Chai, the non-executive Director of the Company and Mr. Qiu Qing, being an executive Director and the CEO of the Company, none of the Directors and chief executive of the Company nor their associates had any interests and short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

The interests of Mr. Leung Chung Shan, Mr. Lim Kim Chai and Mr. Qiu Qing in shares of the Company as at 30 June 2021 was disclosed in the section titled “Substantial Shareholders’ and Other Persons Interests and Short Positions in Shares and Underlying Shares.”

### SHARE OPTION SCHEME

The Company has an option scheme which was approved in a Shareholders’ special general meeting on 31 August 2015 (“Share Option Scheme 2015”). Under Share Option Scheme 2015, the Company may offer to any persons who the Board considered, in its sole discretion, have contributed or will contribute to the Group. Details of Share Option Scheme 2015 were set out in the Company’s circular on 14 August 2015. No share options were granted or exercised during the six months ended 30 June 2021 under Share Option Scheme 2015.

The total number of securities available for issue under the Share Option Scheme 2015 is 96,186,832 shares, which represents 0.90% of the issued shares as at the date of the interim report.

The maximum entitlement of each participant under the Share Option Scheme 2015 in any 12-month period shall not exceed 1% of the issued shares for the time being.

## OTHER INFORMATION

Save as disclosed above, none of the Directors or chief executive of the Company or their spouses or children aged below 18 had any right to subscribe for equity or debt securities of the Company or had exercised any such right during the year under review.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2021, other than the interests of the Directors and chief executive of the Company as disclosed in the section titled "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures", the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Long positions of substantial shareholders in the shares and underlying shares

<b>Name of shareholders</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Approximate % of shareholding<sup>1</sup></b>
Leung Chung Shan <sup>2</sup>	Beneficial owner	4,233,534,634	39.48%
Shek Ying <sup>3</sup>	Interest of spouse	4,233,534,634	39.48%
Lim Kim Chai, J.P. <sup>4</sup>	Beneficial owner	1,569,420,951	14.64%
Qiu Qing <sup>5,6</sup>	Beneficial owner	1,259,861,773	11.75%
Shenzhen Tianji Nanlian Investment Partnership (Limited Partnership)* 深圳市天基南聯投資合夥企業(有限合夥) ("TJNL")	Interest of controlled corporation	1,259,861,773	11.75%
Hong Kong Zhongzheng Investment Co. Ltd.	Interest of controlled corporation	1,259,861,773	11.75%
CITIC Securities CO., Ltd. <sup>7</sup> ("CITIC")	Interest of controlled corporation	678,387,108	6.33%

\* For identification purpose only

## OTHER INFORMATION

### Notes

1. Based on 10,721,666,832 shares of the Company in issue as at 30 June 2021.
2. Mr. Leung Chung Shan is the chairman and executive Director of the Company.
3. Ms. Shek Ying, being the spouse of Mr. Leung Chung Shan, is deemed to be interested in Mr. Leung Chung Shan's interest in the Company by virtue of the SFO.
4. Mr. Lim Kim Chai, J.P. is the non-executive Director of the Company.
5. The 1,259,861,773 shares which were deemed to be interested by Mr. Qiu Qing were held by Hong Kong Zhongzheng Investment Co. Ltd., for which TJNL has 38.46% interest and then Mr. Qiu Qing has 64% interest in TJNL.
6. Mr. Qiu Qing is the executive Director of the Company.
7. CITIC holds 100% direct interest in GoldStone Investment Co., Ltd\* (金石投资有限公司) and accordingly deemed to have an interest in the shares held by GoldStone Investment Co., Ltd\*.

Save as disclosed above, as at 30 June 2021, no other person had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

### **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.

## OTHER INFORMATION

### AUDIT COMMITTEE

As at the date of this report, 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.

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

Hong Kong, 31 August 2021

*As at the date of this report, 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.*