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## **ZHONGZHENG INTERNATIONAL COMPANY LIMITED**

### **中證國際有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 943)**

### **PROFIT WARNING**

This announcement is made by the board (the “**Board**”) of directors of Zhongzheng International Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the annual report of the Company for the year ended 30 June 2023 (the “**2022/23 Annual Report**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the 2022/23 Annual Report.

The Board wishes to inform the shareholders (the “**Shareholders**”) and potential investors of the Company that, based on a preliminary review of the latest unaudited consolidated management accounts of the Group for the six months ended 31 December 2023 (“**HY2023/24**”) and information currently available to the Board, the Group is expected to record a consolidated loss attributable to the owners of the Company in the range of HK\$680 million to HK\$720 million as compared with the consolidated loss attributable to the owners of the Company of approximately HK\$35 million for the six months ended 31 December 2022 (“**HY2022/23**”). The increase in loss is primarily attributable to (i) the decline in revenue from the property development and the healthcare and household products businesses; (ii) an impairment loss on interest in and amount due from the Associate; (iii) an impairment loss on properties under development for sales (“**PUD**”) of the Nanjing Project; and (iv) the increase in finance costs, details of which are set out below.

**(i) Decline in revenue from the property development and healthcare and household products businesses**

Revenue generated from the property development business decreased from approximately HK\$633 million for HY2022/23 to approximately HK\$36 million for HY2023/24 since majority of the residential units of the Dongguan Project had been delivered in July 2022 and revenue from the pre-sale payments had been recognised accordingly in HY2022/23.

Revenue generated from the healthcare and household products business decreased from approximately HK\$113 million for HY2022/23 to approximately HK\$47 million for HY2023/24 due to decrease in sales of oral care products as a result of the lingering destocking effect during HY2023/24. The delay in shipping caused by the Covid-19 pandemic had disrupted the procurement plans of the customers, leading to a more-than-usual orders placed in 2022 and a higher stock level maintained by them. As a result, the customers were still undergoing the destocking process and had reduced their orders placed with the Group during HY2023/24.

As a result of the above, it is expected that the Group will record a loss from operations of approximately HK\$21 million for HY2023/24 as compared to the profit from operations of approximately HK\$142 million for HY2022/23.

**(ii) Impairment loss on interest in and amount due from the Associate**

The Company holds 42.5% indirect equity interest in the Associate, which in turn holds 90% equity interest in Chengde Development. Chengde Development is the project company of the primary land development project namely Luanping Project.

The cost of development of the infrastructure is borne by Chengde Development, and when the land has been developed to a ready and saleable state, the government authority is obligated to conduct land sale through auctions. Chengde Development will only be able to recover its development costs and receive the share of proceeds after the sale of developed land through auction by the local government. As disclosed in the 2021 second interim report of the Group for the year ended 31 December 2021, the operations of all property development projects in the Luanping County, including the Luanping Project, were suspended by the local government due to ecological environmental issues. No auction has been carried out for the land developed by Chengde Development by the Luanping government since 2021 and Chengde Development has not been reimbursed by the government for the constructed infrastructure since 2022. Since the Luanping Project has been suspended, Chengde Development was not able to obtain additional financing from other banks and financial institutions for resumption of the project and refinancing of overdue loans. The Company had hoped that the property market would eventually return to pre-Covid levels and land auction would resume as the pandemic eases. However, there was no sign of recovery of the property market in the short term and there was still no auction carried out for the land developed by Chengde Development in the second half of 2023.

It was further noted that Luanping government had re-tendered the EOD Project in December 2023 and a consortium led by China Railway 15th Bureau Group Co., Ltd. (the “**China Railway Consortium**”) was awarded the tender in January 2024. As there is no detailed information about the China Railway Consortium’s plans to implement the EOD Project available at the moment, the Company is assessing the impact of the abovesaid developments of the EOD Project on the Luanping Project. However, given that Chengde Development will no longer take part in the EOD Project and it does not have the necessary working capital and refinancing for settlement of the overdue loans and resumption of the Luanping Project, the Company expects that it would be difficult for the Luanping Project to proceed further based on the existing business model.

In light of the above, the recoverable amount of Chengde Development as at 31 December 2023 was significantly lower than that as at 30 June 2023, resulting in an impairment loss on interest in the Associate of approximately HK\$327 million.

At the same time, as the Associate is not expected to have sufficient assets to service its debts, it is estimated that an impairment loss of approximately HK\$68 million will be recognised on the amount due from the Associate.

**(iii) Impairment of the PUD of the Nanjing Project**

The Company holds 51% indirect equity interest in Yuanding, which is the project company of the property development project namely Nanjing Project. As disclosed in the 2022/23 Annual Report, development of the PUD has been suspended since August 2022 and Yuanding defaulted on the repayment of bank loan amounting to approximately RMB319.7 million. In December 2023, the Intermediate People’s Court of Nanjing, Jiangsu Province issued a judgment specifying the amount that Yuanding is obligated to pay the bank in terms of principal, interest, and penalty for the loan, and that the bank shall have the right to sell certain land use rights in the Nanjing Project (the “**Pledged Assets**”) and equity in Yuanding (the “**Pledged Equity**”) for recovery of the debt. It was further noted from a public announcement in December 2023 that the debt has been disposed of by the bank as non-performing loan. Despite the Company has been actively seeking financing for settlement of the loan and resumption of the Nanjing Project, there has been no material progress. In the circumstances, the Company considers it is possible that the Pledged Assets and/or the Pledged Equity would be put up for sale for recovery of the debt. On this basis, the net realisable value of the PUD as at 31 December 2023 assessed as value for sale under repossession was lower than its carrying amount as at 30 June 2023, resulting in an impairment loss attributable to the owners of the Company of about HK\$207 million.

**(iv) Increase in finance costs**

The finance costs of the Group increased from approximately HK\$30 million for HY2022/23 to approximately HK\$109 million for HY2023/24, which was mainly attributable to the accrual of penalty interests and default charges relating to the overdue bank loan for the Nanjing Project as mentioned in (iii) above.

The Company is still in the process of finalising its interim results for the six months ended 31 December 2023, in particular, the impairment assessment on assets as mentioned above. The information contained in this announcement is only based on a preliminary review by the management of the Company on the unaudited consolidated management accounts of the Group for the six months ended 31 December 2023 currently available, which has not been reviewed by the auditors or audit committee of the Company and may be subject to adjustment or change. The Company expects to announce its interim results for the six months ended 31 December 2023 on 29 February 2024.

**Shareholders and potential investors of the Company should exercise caution when dealing in the shares of the Company.**

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

Hong Kong, 21 February 2024

*As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Tam Lup Wai, Franky, and Mr. Liu Liyang; 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.*