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ZZ CAPITAL INTERNATIONAL LIMITED

中植資本國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 08295)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 JUNE 2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the “Directors”) of ZZ Capital International Limited 中植資本國際有限公司 (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

HIGHLIGHTS

- For the First Quarter Fiscal 2020, corporate advisory income and interest income from lending business of approximately HK\$0.15 million (2019: HK\$2.64 million) and HK\$0.41 million (2019: HK\$0.37 million) were recognized respectively.
- There was a net investment income for fair value change on financial assets at FVTPL of approximately HK\$0.83 million for the First Quarter Fiscal 2020 (2019: net investment loss of HK\$1.27 million).
- Interest income on structured deposit was approximately HK\$1.86 million (2019: HK\$2.35 million). Interest income from bank deposits was approximately HK\$1.11 million (2019: HK\$1.17 million).
- Net exchange loss of approximately HK\$0.16 million was recognised for the First Quarter Fiscal 2020 (2019: HK\$7.29 million).
- Operating expenses for the First Quarter Fiscal 2020 increased to approximately HK\$16.04 million (2019: HK\$9.24 million). The major expenses components were staff costs of HK\$7.11 million (2019: HK\$5.01 million), rental related expenses of HK\$1.12 million (2019: HK\$1.11 million) and professional fees of HK\$6.12 million (2019: HK\$1.62 million). The increase was mainly attributable to increases in professional fees incurred for the acquisition project and staff costs.
- Loss for First Quarter Fiscal 2020 was approximately HK\$11.68 million (2019: HK\$11.27 million). Basic loss per share for the First Quarter Fiscal 2020 was HK0.33 cent (2019: HK0.32 cent).
- The Board does not recommend payment of a dividend for the First Quarter Fiscal 2020 (2019: Nil).

The board (the “Board”) of directors (the “Directors”) of ZZ Capital International Limited 中植資本國際有限公司 (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 30 June 2020 (the “First Quarter Fiscal 2020”), together with the comparative unaudited figures for the corresponding period in 2019, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June 2020

		Three months ended 30 June	
		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue			
Corporate advisory income	4	150	2,638
Loan interest income	4	405	366
Total revenue	4	555	3,004
Net investment income (loss)	5	832	(1,273)
Interest income	5	2,972	3,520
Other income and loss, net	5	(4)	(7,286)
Operating expenses		(16,035)	(9,235)
Loss before tax		(11,680)	(11,270)
Income tax expense	6	—	(1)
Loss for the period		(11,680)	(11,271)
Other comprehensive income:			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		28	347
Total comprehensive loss for the period		(11,652)	(10,924)
Loss per share attributable to owners of the Company	7		
— Basic (<i>HK cents</i>)		(0.33)	(0.32)
— Diluted (<i>HK cents</i>)		(0.33)	(0.32)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 June 2020

	Share capital <i>HK\$'000</i> (Unaudited)	Share premium <i>HK\$'000</i> (Unaudited)	Contributed surplus <i>HK\$'000</i> (Unaudited)	Translation reserve <i>HK\$'000</i> (Unaudited)	Accumulated losses <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
At 1 April 2020	35,505	706,245	9,000	(31)	(40,825)	709,894
Other comprehensive income for the period	–	–	–	28	–	28
Loss for the period	–	–	–	–	(11,680)	(11,680)
At 30 June 2020 (Unaudited)	35,505	706,245	9,000	(3)	(52,505)	698,242
At 1 April 2019	35,505	706,245	9,000	(3,154)	(42,414)	705,182
Adjustments on initial application of HKFRS 16	–	–	–	–	(30)	(30)
Other comprehensive income for the period	–	–	–	347	–	347
Loss for the period	–	–	–	–	(11,271)	(11,271)
At 30 June 2019 (Unaudited)	35,505	706,245	9,000	(2,807)	(53,715)	694,228

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The registered address and principal place of business of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and 11/F., 8 Queen's Road Central, Hong Kong respectively. The shares of the Company have been listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investments holding. Its subsidiaries are principally engaged in investment holding, provision of corporate advisory services, investment advisory and asset management services, proprietary investments and money lending.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the three months ended 30 June 2020 (the "First Quarterly Financial Statements") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The functional currency of the Company, which is also the presentation currency of the Group's First Quarterly Financial Statements, is Hong Kong dollars ("HK\$"). All values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

3. PRINCIPAL ACCOUNTING POLICIES

The First Quarterly Financial Statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Company. The adoption of these new and revised HKFRSs has no material effect on the First Quarterly Financial Statements, and there have been no significant changes to the accounting policies applied in the First Quarterly Financial Statements.

The principal accounting policies used in the preparation of the First Quarterly Financial Statements are consistent with those used in the preparation of the Group's audited annual financial statements for the year ended 31 March 2020. However, the First Quarterly Financial Statements do not include all of the information required for annual financial statements and they should be read in conjunction with the annual financial statements for the year ended 31 March 2020.

4. REVENUE AND SEGMENT INFORMATION

The executive directors have been identified as the chief operating decision-maker (“CODM”), responsible for making strategic decisions, allocating resources and assessing performance of the operating segments.

The CODM, who allocates resources and assess performance based on the consolidated financial information for the entire business, considers the Group operates only in the provision of corporate advisory services and money lending. Information reported to the CODM for the purposes of resource allocation and assessment focuses on revenue analysis by services provided. No other discrete financial information is provided other than the Group’s results and financial position as a whole. Accordingly, the Group does not present separate segment information other than an analysis of the Group’s revenue from major services.

Revenue represents the net amounts received and receivable for the provision of corporate advisory services and money lending.

An analysis of the Group’s revenue from major services are as follows:

	Three months ended 30 June	
	2020	2019
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Corporate advisory income	150	2,638
Loan interest income	405	366
	555	3,004
A point in time	150	2,638
Over time	405	366
	555	3,004

All services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. NET INVESTMENT INCOME (LOSS)/INTEREST INCOME/OTHER INCOME AND LOSS, NET

An analysis of the Group's net investment income (loss), interest income and other income and loss, net is as follows:

	Three months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net investment income (loss)		
Net fair value gain (loss) on financial assets at fair value through profit or loss ("FVTPL")	<u>832</u>	<u>(1,273)</u>
Interest income		
Interest income from financial assets at amortised cost		
— Bank deposits	1,110	1,169
Interest income from financial assets at FVTPL		
— Structured deposit	<u>1,862</u>	<u>2,351</u>
	<u>2,972</u>	<u>3,520</u>
Other income and loss, net		
Loss on exchange difference	(162)	(7,286)
Government subsidy income	<u>158</u>	<u>—</u>
	<u>(4)</u>	<u>(7,286)</u>

6. INCOME TAX EXPENSE

	Three months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Under-provision in prior year		
PRC Enterprise Income Tax	<u>—</u>	<u>1</u>
Income tax expense	<u>—</u>	<u>1</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million is taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The Directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for both periods.

Under the Law of the People’s Republic of China on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods.

As at 30 June 2020, the Group has tax losses of approximately HK\$550,012,000 (31 March 2020: HK\$537,226,000) incurred by the Company and its subsidiaries which are subject to the approval by the relevant tax authority. No deferred tax has been recognised in respect of tax losses due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

7. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data.

	Three months ended 30 June	
	2020	2019
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Loss:		
Loss for the period attributable to owners of the Company	11,680	11,271
	Three months ended 30 June	2019
	2020	2019
Number of shares:		
Weighted average number of ordinary shares for the purposes of calculating basic and diluted loss per share	3,550,496,836	3,550,496,836

Diluted loss per share amount was the same as basic loss per share amount as there were no potential dilutive ordinary shares outstanding for both periods.

8. DIVIDENDS

The Board does not recommend payment of a dividend for the First Quarter Fiscal 2020 (2019: Nil).

9. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED FIRST QUARTERLY FINANCIAL STATEMENTS

The First Quarterly Financial Statements were approved and authorised for issue by the Board on 10 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The outbreak of the novel coronavirus epidemic has caused huge impact on economic activities. The Group's business is mainly conducted in Mainland China and Hong Kong. Some of the Group's potential customers have delayed or suspended their financing plans due to the epidemic, resulting in the Group's loss of some business opportunities. However, the Group has tried its best to provide corresponding services to its customers through remote conference and the provision of off-site services. This quarter, 3 new institutional customers were gained with financial advisory contracts worth a total of HK\$1.45 million signed. The Group will continue to look for more institutional customers and provide diversified financial services to them, including investment consulting, asset management, corporate consulting, corporate financing and proprietary investment.

As disclosed in an announcement published by the Company on 19 August 2019, it entered into a memorandum of understanding with potential sellers with regard to a potential acquisition of a public company established in China (the "Target Company"). The Target Company mainly provides internet-based back-office services, internet integrated marketing services and smart data solutions. The Group continued to push forward the potential acquisition and is actively negotiating with the potential sellers in this quarter. Further announcement(s) will be made to provide more details as and when appropriate. The Board considers that the potential acquisition provides a good opportunity for the Group to diversify its business and revenue sources, thereby increasing the shareholders' value.

Financial review

For the First Quarter Fiscal 2020, corporate advisory income and interest income from lending business of approximately HK\$0.15 million (2019: HK\$2.64 million) and HK\$0.41 million (2019: HK\$0.37 million) were recognized respectively.

There was a net investment income for fair value change on financial assets at FVTPL of approximately HK\$0.83 million for the First Quarter Fiscal 2020 (2019: net investment loss of HK\$1.27 million).

Interest income on structured deposit was approximately HK\$1.86 million (2019: HK\$2.35 million). Interest income from bank deposits was approximately HK\$1.11 million (2019: HK\$1.17 million).

Net exchange loss of approximately HK\$0.16 million was recognised for the First Quarter Fiscal 2020 (2019: HK\$7.29 million).

Operating expenses for the First Quarter Fiscal 2020 increased to approximately HK\$16.04 million (2019: HK\$9.24 million). The major expenses components were staff costs of HK\$7.11 million (2019: HK\$5.01 million), rental related expenses of HK\$1.12 million (2019: HK\$1.11 million) and professional fees of HK\$6.12 million (2019: HK\$1.62 million). The increase was mainly attributable to increases in professional fees incurred for the acquisition project and staff costs.

Loss for First Quarter Fiscal 2020 was approximately HK\$11.68 million (2019: HK\$11.27 million). Basic loss per share for the First Quarter Fiscal 2020 was HK0.33 cent (2019: HK0.32 cent).

Outlook

The International Monetary Fund predicts that China will be the only major economy that registers positive growth this year. China has the opportunity to become a locomotive that powers a global economic recovery. In Mainland China, the epidemic waned and economic activities returned to normal. China's GDP shrank 6.8% in the first quarter of 2020 due to the epidemic, but grew 3.2% year-on-year and 11.5% quarter-on-quarter in the second quarter, showing a sign of obvious recovery.

Over the past year or so, Hong Kong's economy has plunged into a deep recession as a result of the Sino-US trade war, anti-extradition issue and the epidemic. The economy, however, appears to have finally bottomed out according to the recent data. Hong Kong's PMI rose to 49.6 in June, the highest reading since April 2018.

Against this background, the Group has committed to diversify development strategies. On the one hand, the Group will continue to develop businesses such as corporate advisory and corporate finance services, which are expected to bring stable income to the Group. On the other hand, the Target Company that the Company intends to acquire will help promote the Group's business development and provide potential opportunities for the Group to diversify its businesses and revenue sources. The Group will continue to push forward the possible acquisition, keep on negotiating with the potential sellers in a proactive manner and publish updated announcement(s) when appropriate. If the potential acquisition can be finalised, it is expected it will bring more stable income streams and development opportunities for the Group, thereby increasing shareholders' value.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 7 June 2010 (the "Share Option Scheme"). The principal terms of the Share Option Scheme were summarised in the section headed "Share Option Scheme" in Appendix V to the Company's prospectus dated 11 June 2010. The Share Option Scheme has expired on 18 June 2020.

During the First Quarter Fiscal 2020, no option was granted, exercised or lapsed under the Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2020, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2020, so far as was known to the Directors, the following persons (other than the Directors or chief executive of the Company) had, or were deemed to have, 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 who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in shares of the Company

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
Zhong Zhi Xin Zhuo Capital Company Limited ("ZZXZ")	Beneficial owner	2,159,552,102	60.82%
Kang Bang Qi Hui (HK) Company Limited ("Kang Bang")	Beneficial owner	455,820,525	12.84%
Tian Xi Capital Company Limited ("Tian Xi")	Interest of controlled corporation	2,615,372,627	73.66%
Zhong Zhi Ze Yun Capital Company Limited ("ZZZY")	Interest of controlled corporation	2,615,372,627	73.66%
Mr. XIE Zhikun ("Mr. Xie")	Interest of controlled corporation	2,615,372,627	73.66%

Note:

Each of ZZXX and Kang Bang is a wholly-owned subsidiary of Tian Xi. ZZZY, a company wholly-owned by Mr. Xie, controls 100% of the voting power at general meetings of Tian Xi. As such, each of Tian Xi, ZZZY and Mr. Xie is deemed to be interested in an aggregate of 2,615,372,627 Shares held by ZZXX and Kang Bang by virtue of the SFO.

Save as disclosed above, as at 30 June 2020, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position 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 who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the First Quarter Fiscal 2020.

COMPETING BUSINESS

As at 30 June 2020, none of the Directors was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Mr. Xie, a controlling shareholder of the Company, holding approximately 73.66% of the total issued share capital of the Company as at 30 June 2020 through ZZXX and Kang Bang, indirectly holds 100% equity interest in Zhongzhi Capital Management Company Limited* (中植資本管理有限公司) ("Zhongzhi Capital"). Zhongzhi Capital's key business include private equity investments in the primary market, private placement, mergers and acquisitions of overseas businesses and funds which may compete or are likely to compete with the business of the Group.

Mr. Xie also holds indirect interests in the following companies, which are corporations licensed by the SFC to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities: (1) 80% indirect interest in Tang Wealth International Limited, which mainly provides private banking services, including providing asset allocation and investment consultancy services, including agency sales of public funds and private equity funds, issue of private equity funds or asset management etc. but is not engaged in traditional investment services; and (2) 40% indirect interest in Hang Tang International Capital Management Limited, which mainly provides asset management and funds distribution services. Mr. Xie is also the sole shareholder of ZhongTai Financing (Hong Kong) Limited, which holds a Money Lenders Licence and conducts money lending business.

Save as disclosed above, none of the Directors, controlling shareholder of the Company or their respective close associates had any direct or indirect interest in a business which competes or is likely to compete with the business of the Group.

* For identification purposes only

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee include reviewing and overseeing the financial reporting system, risk management and internal control systems of the Group. The audit committee comprises three independent non-executive Directors, namely Mr. Stephen MARKSCHEID (chairman of the audit committee), Mr. ZHANG Weidong and Mr. ZHANG Longgen.

The audit committee has reviewed the First Quarterly Financial Statements and is of the opinion that the preparation of those statements complies with the applicable accounting standards and that adequate disclosures have been made.

By Order of the Board
ZZ Capital International Limited
中植資本國際有限公司
NIU Zhanbin
Chairman

Hong Kong, 10 August 2020

As at the date of this announcement, the executive Directors are Mr. NIU Zhanbin (Chairman), Mr. JIANG Yulin (Chief Executive Officer) and Mr. WU Hui (Chief Operating Officer); and the independent non-executive Directors are Mr. Stephen MARKSCHEID, Mr. ZHANG Weidong and Mr. ZHANG Longgen.

This announcement will remain on the “Latest Company Announcements” page of the website of the GEM at www.hkgem.com for at least 7 days from the date of its publication and on the website of the Company at www.zzcapitalinternational.com.