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ZHONGCHANG INTERNATIONAL HOLDINGS GROUP LIMITED
中昌國際控股集團有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 859)

SUPPLEMENTAL ANNOUNCEMENT

As disclosed in the Annual Results Announcement and FY2020 Annual Report, the Company has restated comparative figures from the consolidated financial statements of the Company for the year ended 31 December 2019 for certain balance sheet and profit and loss items, as more particularly detailed in note 3 and note 2.2 to the consolidated financial statements of the Company for the year ended 31 December 2020 in the Annual Results Announcement and the FY2020 Annual Report, respectively.

For the information and reference of the shareholders and investors of the Company, the Company would like to further elaborate on the events and circumstances leading to such adjustments.

1. INTRODUCTION

Reference is made to (i) the annual results announcement dated 31 March 2021 (the "**Annual Results Announcement**") and annual report for the year ended 31 December 2020 published on 30 April 2021 ("**FY2020 Annual Report**") of Zhongchang International Holdings Group Limited (the "**Company**"); (ii) the announcements of the Company dated 15 October 2020, 16 October 2020, 20 November 2020, 23 November 2020, 4 January 2021, 15 January 2021 and 18 January 2021 (the "**Announcements**"); (iii) the circular of the Company dated 14 December 2020 (the "**Circular**"); and (iv) the announcement of the Company dated 31 March 2021 (the "**Update Announcement**"). Capitalised terms used herein shall have the same meanings as those defined in the Announcements and the Circular unless otherwise defined or where the context requires otherwise.

As disclosed in the Annual Results Announcement and FY2020 Annual Report, the Company has restated comparative figures from the consolidated financial statements of the Company for the year ended 31 December 2019 ("**FY2019 Financial Statements**") for certain balance sheet and profit and loss items, as more particularly detailed in note 3 and note 2.2 to the consolidated financial statements of the Company for the year ended 31 December 2020 in the Annual Results Announcement and the FY2020 Annual Report, respectively (the "**Prior Year Adjustments**").

For the information and reference of the shareholders and investors of the Company, the Company would like to further elaborate on the events and circumstances leading to the Prior Year Adjustments.

2. EVENTS LEADING TO THE PRIOR YEAR ADJUSTMENTS

The key events leading up to the Prior Year Adjustments are summarized as follows:

(a) Provide impairment allowance for RMB173 million receivable balance as a result of findings relating to Dissipated Funds

As previously disclosed in the Announcements (in particular, the Announcement dated 16 October 2020), the Update Announcement and the Circular:

(i) in connection with the mandatory general offer of the Company by China Cinda (HK) in May 2020, the current executive Directors were appointed to the Company. In August 2020, it came to the attention of the Company that there was a suspicion that certain construction prepayments which had been made to Shanghai Rongzhen by Zhenjiang Tiangong (an indirect wholly-owned subsidiary of the Company) prior to the change in control of the Company in October 2019 had been dissipated;

(ii) the Company carried out further investigation to ascertain the truth of this matter and the identity of the party who may have dissipated the Dissipated Funds. On 16 October 2020, the Company further received information and supporting documents from Shanghai Rongzhen alleging that Shanghai Sansheng, being a previous controlling shareholder of the Company, may have dissipated funds from prepayments of construction costs made by Zhenjiang Tiangong to Shanghai Rongzhen, the latter being the main contractor under the Project;

(iii) while based on the records of the Company, the total amount of prepayments, namely the Prepaid Construction Costs, made by Zhenjiang Tiangong to Shanghai Rongzhen amounted to RMB173 million, based on details and supporting documents provided by Shanghai Rongzhen, transfers amounting to an aggregate of RMB170.5 million were made by Shanghai Rongzhen to Shanghai Sansheng out of such Prepaid Construction Costs; and

(iv) based solely on interviews conducted, documents and information received and reviewed by PRC counsel to the Company, such PRC counsel is of the view that the prepayments made by Zhejiang Tiangong to Shanghai Rongzhen which were then subsequently transferred by Shanghai Rongzhen to Shanghai Sansheng were made without following the internal procedures of the Group and that persons then responsible for the making of such transfers may have committed offences of illegal misappropriation of money and duty embezzlement under PRC laws.

Based on the above, the Directors are of the view that there is no indication or assurance as to whether the Company would be able to recover the Prepaid Construction Costs or any part of the same, if at all. The Directors have accordingly determined that it was appropriate to provide impairment allowance for the amount of RMB173 million (representing the total amount of the Prepaid Construction Costs) receivable balance in the FY2019 Financial Statements.

(b) Restatement of the Group's acquisition of the High Morality Group as an acquisition of business

At the time of the acquisition of the High Morality Group, such Acquisition was accounted for as an acquisition of assets and liabilities in the accountants' report on historical financial information of High Morality contained in the Acquisition Circular compiled by HLB Hodgson Impey Cheng Limited ("**HLB**"), the previous auditors of the Company. As disclosed in the announcements of the Company dated 4 January 2021, 15 January 2021 and 18 January 2021, HLB has since resigned as auditors of the Company with effect from 31 December 2020.

In the course of carrying out the audit procedures for the purposes of compiling the consolidated financial statements of the Company for the year 2020, based on the information available to the Company, the Company's management noticed that prior to completion of its acquisition by the Group. High Morality included inputs, and processes applied to those inputs that have the ability to contribute to the creation of outputs. Therefore, High Morality met the definition of a business in the HKFRS 3 – Business Combination. Accordingly, the Directors considered that it was appropriate to restate the Acquisition as a business acquisition.

(c) Provide impairment allowance for amounts due from entities controlled directly or indirectly by Sansheng Real Estate, a previous controlling shareholder

Under the previously published FY2019 Financial Statements, the receivables due from Sansheng Real Estate and its related parties amounted to approximately HK$120.6 million. These amounts represent, inter alia, trade receivables arising from provision of property project management services, deposits for hotel acquisition, and amount due from an associate.

As previously disclosed, the default of a loan facility provided by China Cinda (HK) to Sansheng Hongye, a previous controlling shareholder which was, at the time, controlled by Sansheng Real Estate, in the amount of HK$700 million and other ancillary documentation has led to China Cinda (HK) enforcing the underlying security for such loan facility, being the shares of the Company representing controlling interest in the Company on 18 October 2019. Since the enforcement of such charge, Sansheng Real Estate had ceased to be the beneficial controlling shareholder of the Company, and the aforesaid amounts due from Sansheng Real Estate and its related parties have remained outstanding. Receivables due from Sansheng Real Estate and its related parties had been discounted and reported in the Company's accounts using the expected credit loss ("**ECL**") method in the previously published FY2019 Financial Statements.

The Directors considered that adoption of the ECL method in relation to receivables from Sansheng Real Estate and its related parties was not market practice and that these balances are 100% impaired, and accordingly, additional impairment should be made for these amounts in the FY2019 Financial Statements.

(d) Consequential prior year adjustment of interest in associate being a related party to Sansheng Real Estate

Under the previously published FY2019 Financial Statements, the Company's interests in associates which are also Sansheng Real Estate's related parties amounted to approximately HK$206.0 million.

With regards to the interests in associate, based on the information available to the Directors, the Directors considered that it was unlikely that the Company will be able to realise its investment in those underlying companies and businesses nor receive investment return in relation to the same. It was also noted by the Directors that receivables were due to those underlying companies and businesses from Sansheng Real Estate and the recoverability of those receivables was also remote. Accordingly, the Group's share of loss in such underlying companies and businesses was restated as HK$234.4 million for FY2019, and as a consequence, the carrying amount of the Group's interest in an associate was also restated to zero in the FY2019 Financial Statements.

(e) Restatement of bank borrowings

As a result of the Prior Year Adjustments described in paragraphs (a) to (d) immediately above, the consolidated net tangible worth of the Group for the year ended 31 December 2019 is less than HK$2,000,000,000. This is a breach of certain financial covenants under facilities granted by Hang Seng Bank Limited to certain subsidiaries of the Group amounting to HK$1,127,000,000 (the "**Relevant Facilities**"). Based on this, such terms of the Relevant Facilities should have been regarded as being breached for the purposes of the FY2019 Financial Statements.

On this basis, therefore, the Directors considered it was appropriate to restate the Relevant Facilities from non-current to current liabilities which are immediately due and payable in the FY2019 Financial Statements.

(f) Restatement not to recognise deferred tax assets based on profit forecast of Zhenjiang Tiangong

In the original FY2019 Financial Statements, a deferred tax asset of approximately HK$7 million was recognised. After reviewing the financial condition of Zhenjiang Tiangong, the Directors determined that it appears that it is unlikely that Zhenjiang Tiangong would be in a financial position to utilise deferred tax assets.

Accordingly, the Directors considered that it was appropriate not to recognise any deferred tax asset for the year ended 31 December 2019, and the relevant line items of the FY2019 Financial Statements were restated.

Event (a) to event (f) are consistent with the disclosures in the audited financial statements set out in the FY2020 Annual Report.

3. THE DIRECTORS' VIEWS ON THE PRIOR YEAR ADJUSTMENTS AND MEASURES TO BE TAKEN IN RELATION TO INTERNAL CONTROL

The Directors would like to draw attention to the fact that the Prior Year Adjustments are related to events that largely transpired during the time when Sansheng Real Estate and Shanghai Sansheng were controlling shareholders of the Company and which resulted from actions taken by the executive directors and senior management members prior to the change of controlling shareholders of the Company completed in May 2020 (and accordingly, prior to the appointment of the current executive Directors and senior management personnel). These actions and events include the Acquisition, the suspected dissipation of the Dissipated Funds, and the various other related party transactions entered into between the Group and Sansheng Real Estate and its related parties. As mentioned above, the Company has been advised by PRC counsel that that the prepayments made by Zhenjiang Tiangong to Shanghai Rongzhen (which were then subsequently transferred by Shanghai Rongzhen to Shanghai Sansheng) were made without following the internal procedures of the Group, and may potentially have involved, among others, criminal misappropriation of money and duty embezzlement in the PRC.

Accordingly, the Directors consider that the consequences of such actions may not necessarily be due to internal control weaknesses and may potentially be due to, among others, the willful mismanagement by certain staff or employees of the Company and certain of its subsidiaries and deliberate actions taken by those persons not to follow internal control procedures that are in place. The Board will continue to review the existing internal control procedures of the Company in relation to its connected transaction, accounting and financial reporting procedures, and consider whether there are any weaknesses. If there are such weaknesses, the Board will make adjustments and alterations to its internal control procedures accordingly.

Save as disclosed above, all other information in both English and Chinese versions of the Annual Results Announcement and FY2020 Annual Report remain unchanged.

By order of the Board
Zhongchang International Holdings Group Limited
Chen Zhiwei
Chairman and Executive Director

Hong Kong, 10 May 2021

As at the date of this announcement, the Board comprises Mr. Chen Zhiwei (Chairman), Ms. Ku Ka Lee, Mr. Tang Lunfei and Ms. Huang Limei as executive directors; Dr. Huang Qiang and Mr. Wong Chi Keung, Kenjie as non-executive directors; and Mr. Liew Fui Kiang, Mr. Wong Wai Leung and Mr. Yip Tai Him as independent non-executive directors.